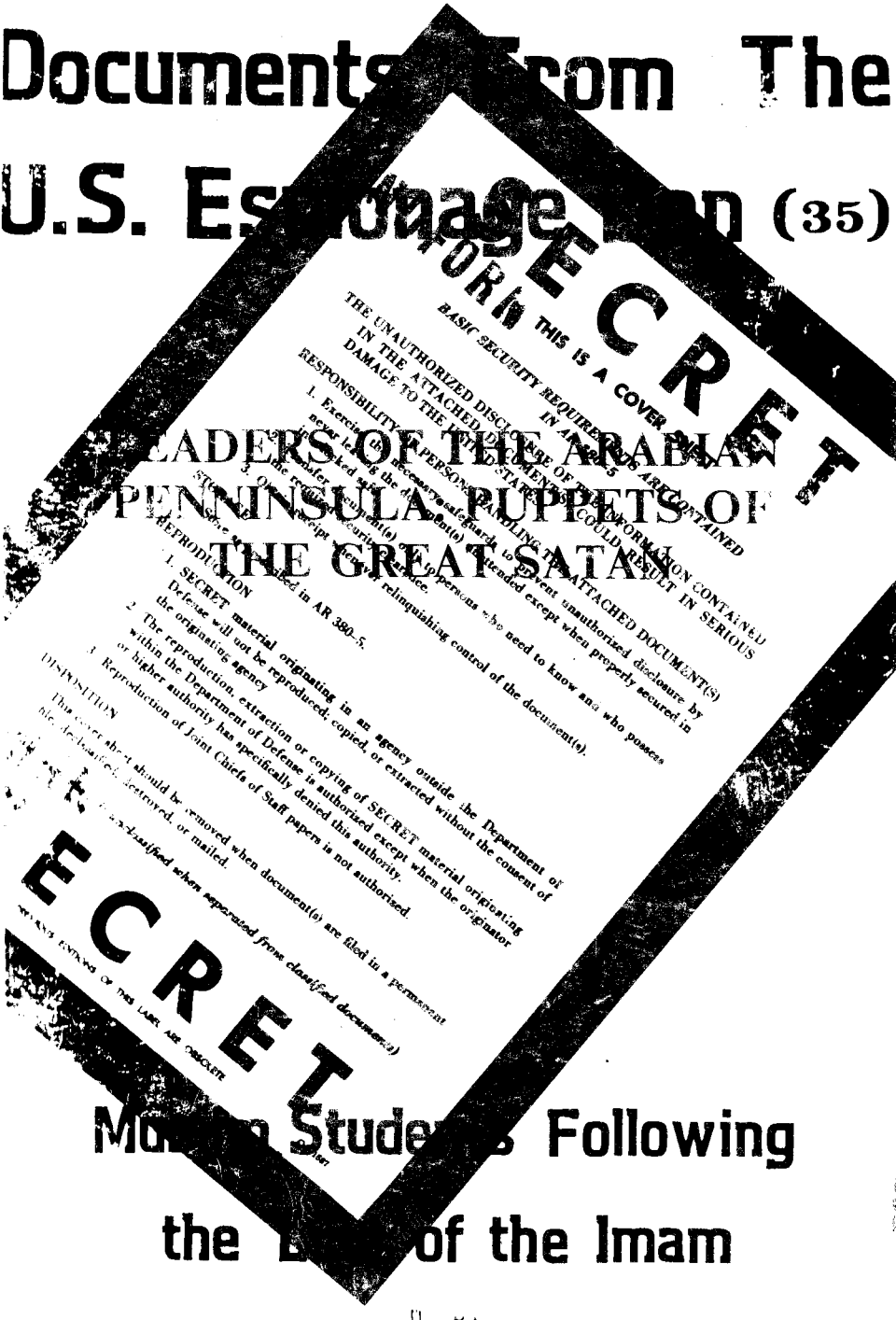
# Documents From The U.S. Espionage Den (35)




# LEADERS OF THE ARABIAN PENNINSULA PUPPETS OF THE GREAT SATAN

# Mo[illegible] Stude[illegible] Following the [illegible] of the Imam

۲۸۰ ریال

In the name of Allah
the most
Compassionate and Merciful

In the name of Allah, the most compassionate,
the most merciful

In this introduction we shall not speak of Saudi and U.S. military collaboration, grand and unrivalled purchase of arms; The continuous Saudi and American plots to plunder the middle-eastern oil reservoirs; of unruly sale of oil under the instruction of their American master in a way suprising even to themselves; of the loss of honor and integrity of the muslims and Arabs in exchange for American Security shield to protect Saudi dynasty; of their special relationship with American imperialism; of the faithlessness unmuslimness and demagogueries of Saudi Kings and princes; of the growth and appearence of western manifestations of Corruption from under the ashes of hypocritical Sacredness; of the unlimited pressure and discrimination imposed on Non-Wahabi muslims; and of the internal factions in the Saudi family and the dependence degree of each on America, because every line of documents Contained in this book and those of the world's daily news are good reasons for what we want to say. Instead, we shall speak of matters that probe

the disgusting feature of A'immatol-Kufr (Infidielity leaders), in other words, we shall take a look at this book's documents, that illustrate the moves of the Arabian-Peninsular rulers as the longstanding Cornerstone of American imperialism's camp of puppeteering and as the main foundation of regional tail-wagging and mercenary reactionism, during the recent decade. According to the documents, Saudis have a bloody hand in all imperialistic and capitalistic plots of America against the muslim and the oppressed nations of the region. In Iran, Ethiopia, Yemen, Palestine, the republic of Sahara, Horn of Africa, and where ever there is a battle between the oppressed muslim nations and the infidle American imperialism , Saudis have taken Side with Infidles against the oppressed.

Catastrophi emerges not only when Saudi devils open fire on muslims on the infidles' front, but when they turn out to be tne main provocative and encouraging elements inviting the warring impietous to fight against the muslims. The contents of the following documents are indicative of our claims:

1- IRAN: Fahd, then crown-prince of Saudi Arabia, ten

days prior to the ignominous flight of the annihilated Shah, takes the following position in support of him".

*B*

*We support every regime that enjoys legitimacy in the country and the regime of the Shah rests on such legitimacy.*

*The bloddy events in Iran serve no interest except that of the enemy.*

*The present situation in Iran does not serve the interests of the iranians themselves nor indeed the interests of Ilsm of the muslims.*

*There is no doubt that we support his status and his presence.*

"His other counterpart is also of the same opinion:"

*A*

*During course of my conversation with fohmin prince Saud on January 1.1979, he said Saudi Arabia was very concerned about events in Iran. SAG fears that if Shah goes, ..... this would produce chaotic condition which will not be good for the area.*

*I asked what could be done to help. He said that Shah*

*needed logistical support.*

**They adopted the following position, after the fall of the Shah and the establishment of the Islamic Republic in Iran:"**

*G*

*"Knowing in our opinion", continued Fahd, "Is a tool, although he may not know it or admit it. The communists are pursuing their designs metnodically ..... these acts of savage slaughter have no connection to Islam whose flag is being artificially fluttered in Iran".*

*" The Crown Prince predicted that "Shortly, Perhaps withing a few months, Khomeini will be out and Iran will. become another Ethiopia, reled by communists placed there by Moscow "*

**"The main point is that, he not only considers the American imperialists' plots against the oppressed, muslim nations inadequate, but overtly encourages them to pave the way for the fall of Islamic revolution in Iran".**

*"The Crown Prince regreted that the United States did nothing to counter the communists threats in the region.*

*"Saudi Arabia had seen the communist fire approaching for a long time and had alerted the U.S. Saudi Arabia's warning and appeals however seem to have fallen on deaf ears."*

Z- BAHRAIN: The Saudis role in the persian gulf is also of the same token. On the one hand, under the pretext of Iran's Interference (In the name of Communism) they encourage their American masters to directly intervene and fight against the Islamic Revolution, and on the other hand, they, themselves, directly laurch Suppressive Campaignes against the peoples of the region:"

*H*

*"Fahd further noted that Iran was threatening Bahrain, Kuwait and the other Arab countries of the Gulf. There had however not been a word of caution to Iran from President Carter to reassure not only weak countries like Bahrain, but also America's other friends in the area and around the world."*

*E*

*Saudi businessman in presence of police official told consoff September 14 that SAG has sent 500 national guardsmen to Bahrain to help GOB maintain order in face of*

*shi's unrest.*

*F*

*Neither we nor British Embassy have recieved any confirmation of SAG national guardsmen actually beeing sent to Bahrain. During demonstrations at the end of August, rumors were strong that up to two thousand Saudi Police had arrived to assist in containing situation but no trace of them ever appeared.*

The problem is not wether the Saudi military dictators have entered Bahrain, but the fact that they have decided to create a problem out of Iran's danger to pave the way for their own interferences:"

*To bolster his advocacy of firmness in the Gulf region, Abdallah claimed that Saudi Arabia reversed iranian aggressive designs on Bahrain by warning Tehran that any take over attempt would be opposed by the Saudis.*

*At several points, Abdallah urged that the USG demonstrate vigor in countering soviet and surrogate threats to ME security. he advocated a combination of "Swinging the stick" and active diplomacy.*

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1- Saudi Arabian active involvement in conspiracies against Islamic Republic, proves to everyone that she has been the principal director of the on going war between Iran & Iraq

3. YEMEN: Saudis' plots in Yemen are so evident that there is no need for explanation."

*The Saudi policy toward the north has long been ambivalent. The Saudis want north Yemen to be strong enough to defend itself against the south but not strong enough to threat them. The Saudis are suspicious about north yemen's willingness to engage in unification talks with the south.*

*Saudi defense minister Sultan.... the central figure in defining his government's policy toward the Yemens.... may cooperate with disgruntled north Yemenis to oust Salih if he concludes that Salih is indeed going too far in appeasing the south.*

4. ETHIOPIA.

*I*

*"Fahd said his intrest in Ethipia was not purely academic rather this was based on the horn of Africa's proximity to the Arabian Peninsula and the repercussions of the Ethiopian-Somalian-Sudanese political scene on developments in Saudi Arabia and the Gulf area.*

*The Crown Prince related how prior to the emperor's downfall, he (Fahd) had discussed haile selassie's problems*

*with then president Nixon and secretary rogers .....*
*unfortunately the west and the U.S. alos did nothing, leaving an open path for the soviets and their allies to move in with their cuban surrogates."*

5.SOMALIA:"

*J*

*"Fahd recalled how in 1978, at president Carter's suggestion, he had persuaded siad barre to announce publicly his acceptance of a un plebiscite for ogaden's people. Although barre did announce his willingness to accept the results of a un referendum, the U.S. seems to have lost intrest in Somalia. Fahd feared that, through neglect, the U.S. might lose Somalia by default."*

6. The Republic of Sahara.

Amir Abdollah the present Saudi crown prince overtly urges the American pagans to fight against the Sahara, in support of king Hassan of Morroco.

*K*

*"Abdollah (who earlier in the meeting had listened intently to ambassador west's review of the Moroccan military situation, derived from Rabat 7148) asked Mr. Ball to urge upon the*

*Congress and elsewhere provision of Firmness in the Gulf Region.*

7.EGYPT:

Since Egypts' signing of campe David treaty and her friendship with Zionism proved her hostile to Islam and the independence of Arab nations in middle-east, she has become the target of regional nations' hatred and disgust. Although the tail-wagging ,western-oriented governments were covertly in accord with Sadat and the Egyptian regime, under the pressure of their own people they had to cut relations with Egypt and Isolate her regime. In resisting the will of muslim people of the region, America and Israel attempted to decrease the amount of pressure exerted on Egypt. The following texts bear the description of Saudi- U.S.-Egyptian Conspiracy in promulgating American Islamic unity and friendship with Israel in contrast with Islam and the muslims' will:"

*During May 1 meeting, Embassy political officer discussed fez Islamic conference with MFA eastern affairs director Ahmad Siraj. Siraj said that Saudi Arabia was sending a strong delegation composed of five foreign ministry officials.*

*On the question of Egyptian membership, Siraj said that Saudi Arabia was legally bound to observe the decisions of the Baghdad conference. He said that if explicit question of expulsion of Egypt ever comes to vote, Saudi Arabia cannot be expected to break with Arab consensus.*

*Siraj added that he felt best way to prevent the expulsion of Egypt was to have the non-Arab states resist such a measure*

*C*

*On the basis of defense of the islamic conference charter. (Comment: That chapter has no provision for expulsion of any muslim state....)*

*Siraj Said that no Arab state can be expected to raise such an issue, but that if enough non-Arab states raise serious objections based on defense of the islamic conference chapter, Saudi arabia could help prevent the expulsion issue from coming to a vote on the grounds that such a vote would damage islamic solidarity.*

**8.Palestine: There is a lot to say on the Saudi rulers' latest positions and conspiracies against the interests' of the palestinian people, but in order to give an end to this**

introduction, we suffice to probe the main point and the ultimate Saudi intentions from the conspiracies planned in secret negotiations with their American masters.

*D*

*The Saudis regard the Arab-Israeli conflict as a direct threat to their national security. They view Arab, and especially palestinian, frustration with Israel as a source of instability in the area that has been successfully exploited by radical leftists and the USSR.*

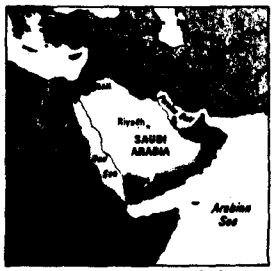
*Saudi leaders are convinced that bringing the plo into the peace process would remove the largest palestinian organization from the radical camp of those Arabs who reject settlement with Israel. The onus for accepting difficult compromises with Israel would thereby be shifted from the moderate arabs to the palestinians themselves.*

In the end we hope with the grace of Allah that the publication of this collection shall notoriously disgrace the naive politicians, and make the world-over hear the righteous call of the oppressed people. May we observe the destruction of the world oppressors and their followers in the future history.

**ENSHA'ALLAH**

*Moslem students following*
*Imam Khomeini's Line.*

# SAUDI ARABIA




(See reference map V)

**AND**

Estimated at about 2,331,000 km² (boundaries undefined nd disputed); 1% agricultural, 1% forested, 98% desert, aste, or urban

**Land boundaries:** 4,537 km

**WATER**

**Limits of territorial waters (claimed):** 12 nm (plus 6 nm "necessary supervision zone")

**Coastline:** 2,510 km

**PEOPLE**

**Population:** 8,103,000 (July 1979), average annual growth rate 3.1% (current)

**Nationality:** noun—Saudi(s); adjective—Saudi Arabian or Saudi

**Ethnic divisions:** 90% Arab, 10% Afro-Asian (est.)

**Religion:** 100% Muslim

**Language:** Arabic

**Literacy:** 15% (est.)

**Labor force:** about 33% (one-half foreign) of population; 44% commerce, services, and government; 28% agriculture, 21% construction, 4% industry, 3% oil and mining

**GOVERNMENT**

**Legal name:** Kingdom of Saudi Arabia

**Type:** monarchy

**Capital:** Riyadh; foreign ministry and foreign diplomatic representatives located in Jiddah

**Political subdivisions:** 18 amirates

**Legal system:** largely based on Islamic law, several secular codes have been introduced; commercial disputes handled by special committees; has not accepted compulsory ICJ jurisdiction

**National holiday:** 23 September

**Branches:** King Khalid (Al Sa'ud, Khalid ibn 'Abd al-'Aziz) rules in consultation with royal family (especially Crown Prince Fahd), and Council of Ministers

## SAUDI ARABIA

Government leader: King Khalid ibn 'Abd al-'Aziz Al Sa'ud

Communists: negligible

Member of: Arab League, FAO, G-77, IAEA, IBRD, ICAO, IDA, IFC, ILO, IMF, ITU, IWC—International Wheat Council, NAM, OAPEC, OPEC, U.N., UNESCO, UPU, WHO, WMO

### ECONOMY

GDP: $64 billion (1978 est.), $9,800 per capita; annual growth in real non-oil GNP approx. 15% (1973/77 average, non-oil)

Agriculture: dates, grains, livestock; not self-sufficient in food

Major industries: petroleum production 9.2 million b/d (1978); payments to Saudi Arabian Government, $36 billion (1977); cement production and small steel-rolling mill and oil refinery; several other light industries, including factories producing detergents, plastic products, furniture, etc.; PETROMIN, a semipublic agency associated with the Ministry of Petroleum, has recently completed a major fertilizer plant

Electric power: 4,700,000 kW capacity (1978); 8.5 billion kWh produced (1978), 1,065 kWh per capita

Exports: $40 billion (f.o.b., 1978); 99% petroleum and petroleum products

Imports: $24 billion (c.i.f., 1978); manufactured goods, transportation equipment, construction materials, and processed food products

Major trade partners: exports—U.S., Western Europe, Japan; imports—U.S., Japan, West Germany

Aid: large aid donor; military and economic aid in 1977 amounted to $4 billion

Budget: (FY78) expenditure $32.8 billion, of which development funding was $22 billion

Monetary conversion rate: 1 Saudi riyal=US$29.4 (1978) (linked to SDR, freely convertible)

Fiscal year: follows Islamic year; the 1978-79 Saudi fiscal year covers the period 6 June 1978 through 25 May 1979

### COMMUNICATIONS

Railroads: 575 km standard gage (1.435 m)

Highways: 30,100 km total; 16,500 km paved, 13,600 km improved earth

Pipelines: 2,430 km crude oil; 396 km refined products; 98 km natural gas

Ports: 3 major (Jidda, Ad Damman, Ras Tanura), 6 minor

Merchant marine: 68 ships (1,000 GRT or over) totaling 1,272,200 GRT, 2,223,000 DWT; includes 6 passenger, 25 cargo, 27 tanker, 5 specialized carrier, 1 beach landing cargo, 1 bulk, 2 combination ore/oil, 1 liquefied gas (C)

Civil air: 87 major transport aircraft, including 9 leased in

Airfields: 123 total, 90 usable; 32 with permanent-surface runways; 18 with runways 2,440-3,659 m, 39 with runways 1,220-2,439 m, 4 with runways over 3,660 m

Telecommunications: fair system exists, major expansion program underway with microwave, coaxial cable, satellite systems; 200,000 telephones (2.5 per 100 popl.); 6 AM, 1 FM, 11 TV stations, 1 submarine cable; 1 Atlantic and 1 Indian Ocean satellite station; 15 domestic satellite stations

### DEFENSE FORCES

Military manpower: males 15-49, 1,882,000; 1,043,000 fit for military service; about 77,000 reach military age (18) annually

Personnel: 31,500 army, 1,400 navy, 6,000 air force (250 pilots), 20,000 national guard (S)

Major ground units: 3 infantry brigades, 1 mechanized infantry brigade, 2 armored brigades, 8 battalions (1 royal guard, 2 airborne, 2 light armored, 1 Special Forces, 2 field artillery); 18 air defense artillery batteries; 10 Hawk air defense missile batteries; in addition, national guard has 46 battalion-size units (S)

Ships: 3 fast patrol boats, 1 patrol boat, 2 utility landing craft, 4 mechanized landing craft, 4 service craft in naval force; about 400 miscellaneous patrol craft (including 8 hovercraft) in coast guard (S)

Aircraft: 289 (184 jet, 39 turboprop, 14 prop, 52 helicopters) (S)

Supply: produces some ammunition and rifles; otherwise relies on Western sources, particularly U.S., West Germany, U.K., Italy, and France (C)

Military budget: for fiscal year ending 1 July 1979, $12,936 million; about 32% of central government budget (C)

### INTELLIGENCE AND SECURITY

Directorate of General Intelligence (DGI) (Al-Mudiriyyah al-Ammah lil Istakhbarat), domestic/foreign; Foreign Liaison Office (FLO), foreign covert action instrument (in September 1977, the FLO was subsumed into the DGI, but as of March 1978 it continued to function as a separate entity); Directorate General for Investigations (Al-Mudiriyyah al-Ammah lil Mabahith), domestic; Directorate General for Public Security (Al-Mudiriyyah al-Ammah lil Amn al-Am), domestic; Directorate General for Coast and Frontier Guard (Al-Mudiriyyah al-Ammah li-Khafr al-Sawahil wa al-Hudud), domestic; Department of Civil Defense, domestic; Department of Technical Services (Mudiriyyat al-Khadamat al-Ammah), domestic; National Security Council (Al-Majlis al-Ala lil Amn al-Am), domestic; National Guard (Al-Haras al-Watani), domestic; Foreign Liaison Office (FLO), domestic and regional; Special Security Forces (SSF), domestic (S/NF)

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FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 4359
INFO RUQMBI/AMEMBASSY ABU DHABI 1563
RUESRS/AMEMBASSY CARACAS 192
RUFHRS/AMEMBASSY ALGIERS 669
RUQMOD/AMEMBASSY DOHA 633
RUKOBI/AMEMBASSY JAKARTA 235
RUQMKW/AMEMBASSY KUWAIT 479
RUFAQL/AMEMBASSY LAGOS 213
RUFRLC/AMEMBASSY LIBREVILLE 36
RUQMAM/AMEMBASSY MANAMA 1353
RUQMMT/AMEMBASSY MUSCAT 515
RUESQI/AMEMBASSY QUITO 68
RUQMHR/AMEMBASSY TEHRAN 2637
RUQMTI/AMEMBASSY TRIPOLI 994
RUFNAU/AMEMBASSY VIENNA 240
RUEHGR/USIINT BAGHDAD 3126
RUQADH/AMCONSUL DHAHRAN 1733
RUQMYA/USLO RIYADH 2453
RUFNOL/AMEMBASSY BONN 607
RUDTC/AMEMBASSY LONDON 4046
RUEHME/AMEMBASSY MEXICO CITY 30
RUFNPS/AMEMBASSY PARIS 1945
RUDKSNO/AMEMBASSY OSLO 38
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C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 01 OF 03 JIDDA 0013

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ACTION
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E.O. 12065: NA
TAGS: ENRG, OPEC, SA, US
SUBJECT: POTENTIAL IMPACT OF OPEC PRICE INCREASE - SAUDI ARABIA

REF: JIDDA 3830 AND 9044

THE FOLLOWING MESSAGE REPRESENTS A CONSENSUS OF THE EMBASSY'S OIL COMMITTEE MEMBERS INCLUDING USLO RIYADH AND CONSULATE DHAHRAN.

1. THE 14.5 PERCENT PRICE INCREASE DECIDED AT THE OPEC MINISTERIAL CONFERENCE IN ABU DHABI POSSIBLY REPRESENTS THE OVER-RIDING DECISION OF SAUDI ARABIA TO MAINTAIN OPEC UNITY OVER ITS SOMEWHAT WEAKER WISH TO BE RESPONSIVE TO WESTERN, AND ESPECIALLY US, PLEAS FOR PRICE MODERATION. THE DESIRE TO MAINTAIN OPEC UNITY WAS EXEMPLIFIED BY THE INTENSIVE BILATERAL CONSULTATIONS THAT PRECEDED THE CONFERENCE. THESE BEGAN IN EARLY FALL, WIL SAUDI OIL MINISTER YAMANI LEADING OFF WITH HIS FIRST VISIT TO VENEZUELA IN SEVERAL YEARS. THIS WAS FOLLOWED BY A SERIES OF VISITS BY ABUDHABI'S OIL MINISTER, MANI AL UTAYBA, TO VIRTUALLY ALL THE MIDLE EAST OPEC CAPITALS. IN THE FINAL DAYS BEFORE THE CONFERENCE, THE OIL AND FINANCE MINISTERS OF QUATAR AND ABU DHABI, AS WELL AS KUWAITI OIL MINISTER ALI KHALIFA AND IRANIAN NIOC OFFICIAL PARVIZ MINA ALL VISITED THE KINGDOM. THESE VISITS ARE BELEIVED TO HAVE SET THE STAGE FOR THE PRICE DECISION TAKEN AT ABU DHABI.

2. AT THE SAME TIME, EXTERNAL FACTORS CONTRIBUTED PRESSURE FOR A PRICE INCREASE. MOST SIGNIFICANT WAS THE EARLY DECEMBER DROP IN IRANIAN PRODUCTION OCCASIONED BY RENEWED INTERNAL DIFFICULTIES. THIS, COMBINED WITH PRE-CONFERENCE LIFTINGS BY OIL COMPANIES IN ANTICIPATION OF A PRICE INCREASE, AND USUALLY HIGH FALL DEMAND IN EUROPE COMBINED TO SOAK UP SURPLUS PRODUCTION. AT THE SAME TIME, THE RENEWED STRENGHT OF THE DOLLAR IN RESPONSE TO THE U.S. SUPPORT PROGRAM HAD ONLY LIMITED IMPACT ON SAUDI THINKING. SAUDI OFFICIALS COMMENTED THAT IT WAS STILL TOO EARLY TO BASE OIL PRICE JUDGMENTS ON THIS STRENGTHENING, AND STATED THAT SEVERAL MONTHS WOULD BE NECESSARY TO TELL IF THE PROGRAM WAS INDEED WORKING.

3. IN CONTRAST, THE WEST'S EFFORTS TO CONTAIN A PRICE INCREASE WERE PRIMARILY INTENSIVE HIGH-LEVEL REPRESENTATIONS BY THE UNITED STATES, AND RELATIVELY MILD PUBLIC STATEMENTS BY EC ENERGY COMMISSIONEER, THE FRG'S BRUNNER. THESE WERE OB VIOUSLY NOT ENOUGH TO CONVINCE THE SAUDIS TO TAKE A HARDLINE STAND AGAINST THE CONCERTED PRESSURE OF THE OTHER OPEC MEMBERS. THE END RESULT, WAS THE DECISION TO BOOST PRICES AN AVERAGE OF 10 PERCENT FOR ALL OF 1979, WITH THE OVERALL INCREASE TOTALING 14.5 PERCENT TO BE APPLICABLE IN THE WHOLE OF CALENDAR YEAR 1980, IN THE ABSENCE OF ANY FURTHER INCREASES. THESE FIGURES CONTAIN COMETHING FOR BOTH THE MODERATES AND THE PRICE HAWKS. BOTH CAN QUOTE THE FIGURE THAT SERVES THEM BEST.

4. INITIAL LOCAL REACTION HAS BEEN REPORTED IN REFTEL. IN HIS PRESS CONFERENCE IMMEDIATELY FOLLOWING THE CONFERENCE, ZAKI YAMANI INDICATED THAT SAUDI OBJECTIVES HAD BEEN A SMALLER PRICE-HIKE
O
BUT CROWN FAHD'S STATEMENT OF FOLLOWING
BI

DAY, WHILE EMPHASIZING THE 10 PERCENT AVERAGE, CALLED THE PRICE HIKE "LLOGICAL AND OBJECTIVE" AND BLAMED THE DETERIORATION OF THE DOLLAR AND HIGH INFLATION IN THE WEST WHICH MADE SUCH A HIKE NECESSARY.

5. AN INITIAL CALCULATION INDICATES THAT THE SAUDIS WILL RECEIVE ROUGHLY AND ADDITIONAL $3.8 BILLION IN 1979 AS A RESULT OF THE PRICE HIKE IF A PRODUCTION LEVEL OF 8.5 BILLION B/ DAY IS MAINTAINED. OBVIOUSLY, THIS WILL ASSIST THE SAUDIS IN MEETING ANY FURTHER SHORT-FALL IN THE CURRENT FISCAL YEAR BUDGET AND PROVIDE SOMETHING OF A CUSHION FOR NEXT YEAR'S EXPENDITURES IF PRODUCTION FALLS. IT WILL NOT PROVIDE SUFFICIENT FUNDS TO UNDERTAKE ANY AMBITIOUS NEW PLANS BEYOND THOSE ALREADY PROJECTED, BUT, WITH THE RECENT EMPHASIS ON COST CUTTING AND TIGHTER CONTROL OF EXPENDITURE, TOGETHER WITH THE MAINTENANCE OF A DOMESTIC INFLATION RATE OF 10 TO 12 PERCENT, WELL BELOW EARLIER LEVELS, FURTHER CUTS IN URRENT PROJECT SPENDING ARE UNLIKELY.

6. TO THE EXTENT THAT THE DOLLAR DETERIORATES AS A RESULT OF THIS PRICE HIKE, SO WILL THE OVER 80 PERCENT OF SAUDI ASSETS AND RESERVES DENOMINATED IN DOLLARS. HOWEVER, THIS LOSS IN DOLLAR VALUES WILL ACTUALLY BE APPLICABLE ONLY WHEN THE SAUDIS NEED TO EXCHANGE THEM FOR OTHER CURRENCIES TO PAY FOR IMPORTS OR SERVICES. ON THE OTHER HAND, TO THE EXTENT THAT THIS PRICE INCREASE FUELS U.S. INFLATION, SAUDI PURCHASES OF U.S. GOODS AND SERVICES WILLL BE DIRECTLY EFFECTED.

7. WE DO NOT EXPEDT THIS PRICE INCREASE TO HAVE ANY MAJOR EFFECT ON SAUDI FOREIGN AID. AID WILL PROBABLY BE SUSTAINED AT CURRENT LEVELS, WITH ARAB AND ISLAMIC POLITICAL CONSIDERATIONS CONTINUEING TO BE THE OVER-RIDING FACTORS IN AID DECISIONS. THERE MAY BE SOME AID GIVEN IN THE FORM OF OIL GRANTS AS CLAIMED BY MOBUTU OF ZAIRE AFTER A RECENT VISIT TO THE KINGDOM.

8. IN THE LONGER RANGE, THE NEW BASE FOR POSSIBLE OPEC PRICE INCREASES FOR 1980, WILL BE 14.5 PERCENT HIGHTER THAN THE CURRENT PRICE. THE SAUDI THIRD FIVE YEAR PLAN IS SCHEDULED TO GEGIN IN APRIL, 1980. THIS PLAN IS EXPECTED TO BE MORE COSTLY THAN THE SECOND PLAN, AND THERE IS A GROWING SOPHISTICATED REALIZATION AMONG SAUDI PLANNERS TO MATCH REVENUES WITH EXPENDITURES. WHAT IMPACT THIS WILL HAVE ON LONG-TERM PRICING POLICY IS UNCERTIAIN, BUT WILL BECOME MORE APPARANT AS PRECISE OUTLINES OF THE THIRD PLAN EMERGE.

9. ANOTHER INTERESTING, BUT AS YET UNRESOLVED, QUESTION IS WHAT IMPACT THIS PRICE INCREASE WILL HAVE ON MAINTENANCE AND EXPANSION OF OIL PRODUCTIVE CAPACITY. THE POSSIBLITY THAAT SOME OF THIS ADDITIONAL PROFIT BE DIVERTED TO MAINTENANCE AND EXPANISON OF OIL FACILITIES WILL, IN SOME MEASURE, BE DETERMINED BY HOW SALES AND BUDGETING PROCEDURES OF THE TO-BE-NATIONALIZED ARAMCO ARE ORGANIZED.

10. ONE OF THE MOST SIGNIFICANT EFFECTS OF THE ABU DHABI CONFERENCE, FORM THE SAUDI POINT OF VIEW, WAS THE RESTORATION OF OPEC UNITY WHICH WAS BADLY SHAKEN BY THE SAUDI BREAK AND THE RESULTANT TWO-TIERED PRICE N 1977. THE WILLINGNESS OF SAUDI ARABIA TO ACCEPT THE MAJORITY DECISION HAS REDEEMED SAUDI ARABIA AND BANISHED, AT LEAST TEMPORARILY, LINGERING DOUBTS AS TO ITS PRO-OPEC STANCE TOWARDS THE OTHER MEMBERS. THE SAUDIS SEE THIS AS A POSITIVE GOOD, AND THIS ACCOUNTS FOR THE SPIRITED DEFENSE OF THE PRICE INCREASE NOW APPEARING IN THE LOCAL PRESS.

11. SOME ELEMENT OF RAAB UNITY MAY ALSO BE INVOLVED. PERHAPS MORE CONCRETELY, THE SAUDI ACTION HAS PLAYED A MOJOR ROLE IN THE SIGNIFICANT IMPROVEMENT OF RELATIONS WITH BOTH KUWAIT AND IRAQ. HERE, THE SAUDI POSTURE CAN BE INTERPRETED AS PRO-ARAB FOLLOWING ON THE RESULTS OF THE BAGHDAD CONFERENCE, AS WELL AS PRO-OPEC.

12. IT IS STILL TOO EARLY TO SAY HOW THE SAUDIS EVALUATE THE IMPACT OF THE PRICE INCREASE ON SAUDI-U.S. RELATIONS. THE INSTANT DEFENSIVE REACTION LEADS US TO BELEIVE THAT THEY ARE PERHAPS NERVOUS OVER WHAT THE IMPACT WILL BE, ESPECIALLY IF THEY ARE SINGLED OUT FOR BALME BY THE U.S. PRESS AS THEY WERE PRAISED AFTER THE 1977 PRICE SPLIT. CERTAINALY, THERE ARE NO CURRENT INDICATIONS THAT THEY WILL RESPOND POSITIVELY TO PRESIDENT CARTER'S REQUEST FOR RECONSIDERATION OF THE STEP INCREASES LATER NEXT BI

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RUQMOD/AMEMBASSY DOHA 635
RUKCDI/AMEMBASSY JAKARTA 237
RUQMKW/AMEMBASSY KUWAIT 481
RUTAAL/AMEMBASSY LAGOS 215
RUFHLC/AMEMBASSY LIBREVILLE 38
RUQMAN/AMEMBASSY MANAMA 1355
RUQMMT/AMEMBASSY MUSCAT 517
RUESQI/AMEMBASSY QUITO 62
RUQMHR/AMEMBASSY TEHRAN 2639
RUQMTI/AMEMBASSY TRIPOLI 996
RUFHAU/AMEMBASSY VIENNA 242
RUEHCR/USINT BAGHDAD 3128
RUQMDH/AMCONSUL DHAHRAN 1737
RUQMJA/USLO RIYADH 2458
RUFHOL/AMEMBASSY BONN 609
RUDTC/AMEMBASSY LONDON 4946
RUEHME/AMEMBASSY MEXICO CITY 32
RUFNPS/AMEMBASSY PARIS 1947
RUDKSNQ/AMEMBASSY OSLO 40
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C O N F I D E N T I A L

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YEAR. IF ANYTHING, THE GENERAL TENOR OF REMARKS IS THAT THE SAUDIS WILL STAND BY THEIR OPEC BRETHREN FOR 1979, AND CLOSELY WATCH THE PROGRESS OF THE DOLLAR BEFORE COMMITTING THEMSELVES TO ANY COURSE OF ACTION FOR 1980.

13. THEY HAVE AND WILL CONTINUE TO ARGUE BOTH PUBLICLY AND PRIVATELY THAT THE PRICE INCREASE WOULD HAVE BEEN EVEN GREATER IF NOT FOR SAUDI MODERATION, AND WILL POINT TO THE OPEC DECISION TO CONTINUE USE OF THE DOLLAR AS A PRICING MECHANISM TO BE THE RESULT OF THEIR DEFENSE OF U.S. INTERESTS. WHAT OTHER STEPS THEY MAY TAKE TO ALLEVIATE U.S. DISAPPOINTMENT OVER THE PRICE INCREASE ARE NOT CLEAR, BUT MAY INCLUDE STEPPED UP DOLLAR PURCHASES FROM THE UNITED SAATES.

14. THE BIGGEST DANGER ARISING FROM THIS MOST RECENT OPEC DECISION IS THAT OPEC AND SAUDI ARABIA MAY FIND THEMSELVES LOCKED INTO A CONTINUEATION OF THE SYSTEM OF QUARTERLY PHASED INCREASES. YAMANI MUCH EARLIER PUBLICALLY ADVOCATED SUCH A SYSTEM AND THIS IS PROBABLY ONE OF THE QUESTIONS BEING STUDIED BY THE OPEC MINISTERIAL LONG-RANGE STRATEGY COMMITTEE. SINCE OPEC PRICING DECISIONS ARE IN THE LAST ANALYSIS MORE POLITICAL THAN ECONOMIC , SUCH A PROCEDURE, ONCE INSTITUTIONALIZED, AAY BE VERY HARD TO UNDO. AS A RESULT, ANOTHER INFLATIONARY FACTOR WILL BE BUILT INTO THE WORLD ECONOMIC SYSTEM. SIGNIFICANTLY, ALTHOUGH POTENTIAL FUTURE PRICE INCREQSES ARE STATED TO BE HINGED TO THE FATE OF THE DOLLAR, THERE IS NO ASSURANCE THA THE DOLLAR'S STRENGTHENING WILL LEAD TO ANY PRICE DECREASE.
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RUQMKW/AMEMBASSY KUWAIT 4086
RUDTC/AMEMBASSY LONDON 4049
RUEHMO/AMEMBASSY MOSCOW 268
RUQMMI/AMEMBASSY MUSCAT 518
RUSBAE/AMEMBASSY NEW DELHI 438
RUFNPS/AMEMBASSY PARIS 1948
RUMJPG/USLO PEKING 11
RUFHRO/AMEMBASSY ROME 1029
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C O N F I D E N T I A L JIDDA 0049

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E.O. 12065; GDS 1/2/85 (BOVIS, H. EUGENE) OR-P
TAGS: PEPR, SA, IR
SUBJECT: SAUDI VIEW OF IRAN

(C- ENTIRE CONTENTS)

1. DURING COURSE OF MY CONVERSATION WITH FON MIN PRINCE SAUD ON JANUARY 1, 1979, HE SAID SAUDI ARABIA WAS VERY

CONCERNED ABOUT EVENTS IN IRAN. SAG FEARS THAT IF SHAH GOES, ALL THE SYMBOLS OF UNITY IN THE COUNTRY WILL DISAPPEAR. ARMY WILL DISINTEGRATE AND COUNTRY WILL COLLAPSE INTO TRIBALISM. THIS WOULD PRODUCE CHAOTIC CONDITION WHICH WILL NOT BE GOOD FOR THE AREA.

2. I ASKED WHAT COULD BE DONE TO HELP. HE SAID THAT SHAH NEEDED LOGISTICAL SUPPORT . HE NEEDS WAY OF KEEPING FUEL SUPPLIES COMING AND MAINTAINING FOOD DISTRIBUTION.

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3. HE ADDED THAT THERE WAS NO REAL ALTERNATIVE TO THE SHAH AND THAT HE WAS TERRIBLY CONCERNED AS TO WHAT WAS HAPPENING.

4. I ASKED HIM IF HE HAD ANY PREDICTION OF WHAT THE FINAL OUTCOME MIGHT BE. HE REPLIED THAT THE SITUATION WAS SUCH THAT HE COULD NOT PREDICT WITH ANY CONFIDENCE WHAT MIGHT HAPPEN.

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ACTION FCM 5 **INCOMING TELEGRAM** CONTROL NO. 15

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LIMITED OFFICIAL USE JIDDA 0726

E.O. 11652: N/A
TAGS: EIRG, EINV, SA, JA
SUBJ: SAUDI OIL SALES AND INDUSTRIALIZATION

REF: JIDDA 727 (NOTAL)

1. DURING RECENT VISIT BY JAPANESE FOREIGN MINISTER SUNODA, SAUDI OIL MINISTER YAMANI TOOK PAINS TO EMPHASIZE -- ACCORDING TO JAPANESE EMBASSY SOURCES HERE -- THAT SAG COULD NOT BE EXPECTED TO PRODUCE OIL IN MID-1980'S AT RATE OF 16-18 MILLION B/D INDICATED BY CIA OR OTHER STUDIES. YAMANI NOTED OPPOSITION IN SAG TO ANY PRODUCTION INCREASE BEYOND PRESENT 8.5 MILLION B/D CEILING. HE ONCE AGAIN STRESSED SAG DESIRE FOR TECHNOLOGY TRANSFER AS CONDITION FOR EXPANSION OF SAUDI OIL PRODUCTION.

2. YAMANI TOLD JAPANESE THAT OIL PRODUCED BY SAUDI ARABIA, IN EXCESS OF ENTITLEMENTS TO ARAMCO PARENT COMPANIES UNDER TAKEOVER AGREEMENT (NOTE: ABOUT 7 MILLION B/D, WOULD BE SOLD IN FUTURE BY SAG ENTITY UNDER NEW GOVERNMENT TO GOVERNMENT SALES CONTRACT WHICH WOULD TIE INDUSTRIAL-TECHNOLOGICAL COMMITMENTS ON PART OF BUYER TO OIL SALES. CURRENT JAPANESE OIL PURCHASE CONTRACTS ALL EXPIRE AT END OF 1978.

3. SAG CONTINUING TO PRESS JAPANESE FOR COMMITMENT ON PETROCHEMICAL PROJECT AT JUBAYL, ACCORDING TO JAPANESE EMBASSY. PROJECT IS NOW UNDER "INTERNAL STUDY" BY MITSUBISHI GROUP AND MITI, WHICH IS EXPECTED TO LAST UNTIL JUNE. IF JAPANESE CAN AGREE INTERNALLY (WHICH WE UNDERSTAND INVOLVES INSISTENCE BY MITSUBISHI THAT OTHER JAPANESE PETROCHEMICAL MANUFACTURERS BE OBLIGED TO TAKE SOME OF PLANT PRODUCT), PROJECT WILL MOVE TO STAGE OF JOINTLY SAUDI-JAPANESE FINANCED DETAILED FEASIBILITY STUDIES.

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C O N F I D E N T I A L DHAHRAN 0211

E.O. 11652: GDS
TAGS: ENRG, SA
SUBJECT: ARAMCO CRUDE OIL PRODUCTION

1. CURRENT PRODUCTION: ARAMCO CHAIRMAN JOHN KELBERER (PLEASE PROTEBD) RECENTLY TOD CONSUL GENERAL THAT ITS COMPANY'S PRODUCTION AVERAGED 7.5 MILLION BPD DURING JANUARY 1978. THE REDUCED PRODUCTION RATE REFLECTED SLACK DEMAND FOLLOWING PERIOD OF INCREASED XDEMAND IN LATE 1977 AS BUYERS FILLED STORAGE FACILITIES IN ANTICIPATION OF AN OPEC PRICE RISE. ACCORDING TO KELBERER DEMAND HAS SHARPLY INCREASED IN FEBRUARY, PROBABLY BECAUSE OF BAD WINTER IN US AND ELSEWHERE, AND FIRST EIGHT DAYS OF THE MONTH WERE AT THE RATE OF 10 MILLION BPD.

2. FUTURE PRODUCTION CAPACITY: KELBERER DESCRIBED JANUAR ARTICLE BY STEVEN RATTNER IN INTERNATIONAL HERALD TRIBUNE AS GENERALLY ACCURATE. RATTNER'S STORY REPORTED A STATEMENT BY ENERGY SECRETARY SCHLESINGER THAT SAUDI ARABIA IS "SCHEDULED" TO INCREASE PRODUCTIVE CAPACITY MODESTLY BETWEEN NOW AND THE EARLY 1980'S AND THAT THE SAUDIS SHOULD BE ABLE TO PRODUCE ABOUT 12 MILLION BARRELS A DAY BY ABOUT 1983 OR 1984, COMPATED TO ABOUT 10 MILLION BPD NOW. THE ARAMCO CHAIRMAN NOTED THAT THOSE FIGURES ARE ABOUT RIGHT IF THEY REFERE (AS SECRETARY SCHLESINGER INTENDED) TO "MAXIMUM SUSTAINABLE PRODUCTIVE CAPACITY" (THE FORMER GENERALLY ABOUT 15 PERCENT LOWER THAN THE LATTER). OOUR NOTES INDICATE A SMALL DIFFERENCE, HOWEVER, IN THAT KELBERE USED THE FIGURES 12.5 AND 10.5 MILLION BPD RATHER THAN 12 AND 10 MILLION BPD AS THE 1983 OR 1984 AND CURRENT MAXIMUM SUSTAINABLE CAPACITY RESPECTIVELY WHEN HE DISCUSSXED THIS SUBJECT WITH SECRETARY SCHLESINGER ON JANUARY 12.

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3. KELBERER COMMENTED THAT A GROWING NUMBER OF YOUNG TECHNOCRATS IN THE SAUDI GOVERNMENT FAVOR CONSERVATION OF THEIR SOLE NATURAL RESOURCE BY LIMITING PRODUCTION TO THE AMOUNT NECESSARY TO COVER SAG FINANCIAL REQUIREMENTS INCLUDING THE FIVE YEAR PLAN, I.E. APPROXIMATEYTY 5 MILTION BPD. MOST POLICY-MAKING AND TECHNICAL OFFICIALS IN THE PETROLEUM MINISTRY, ACCORDING TO KELBERER, THINK THAT 12 MILLION BPD IS ABOUT THE BEST LONG-TERM PRODUCTION LEVEL OFR SAUDI ARABIA, CONSIDERING DEPLETION RATES AND GOOD FIELD CARE. THEY REALIZE, HOWEVER, THAT SAUDI RESPONSIBLITIES TO THE FREE WORLD AND POLITICIAL REQUIREMENTS MAY FORCE THAT RATE UPWARD.

4. COMMENT: THE YOUNG SAUDI TECHNOCRATS, WHO CONSISTENTLY CITE THE FIVE MILLION B/D PRODUCTION FIGURE AT CURRENT OIL PRICES NEEDED TO COVER DEVELOPMENT PLANS, MAY BE USING AN ARGUMENT AGAINST INCREASED OIL PRODUCTION WHICH IS RAPIDLY LOSING ITS VALIDITY. AS POINTED OUT IN JIDDA 0976, INFLATION AND THE DROP IN THE DOLLAR EXCHANGE RATE ARE CAUSING CONCERN TO SAUDI ECONOMIC PLANNERS, WHO ARE NOW TALKING OF POSSIBILITY OF DEFICIT BUDGETS IN THE "EARLY TO MID-1980'S" THUS, THERE MAY BE RECOGNITION IN OTHER PARTS OF THE SAG THAT FIVE MILLION B/D AT CURRENT PRICES MAY NOT PAY FOR ALL THE PROJECTS INCLUDED IN THE FIVE YEAR PLAN. THIS IS NOT TO SAY THAT SAG OIL REVENUES AT CURRENT PRODUCTION LEVELS CANNOT COVER SAG EXPENDITURES OR THATIEHE SAG HAS NOT THE WHEREWITHAL TO COVER IST PLANNED DEVELOPMENT PROGRAMS. (SAG STILL HAS LARGE AND STILL GROWING RESERVE POSITION.) HOWEVER, COSTS OF DEVELOPMENTAL PROJECTS CONTINUE TO MOUNT AS OIL REVENUES REMAIN FAIRLY STATIC UNDER THE PRICE FREEZE, AND FIVE MILLIONB/D PRODUCTION MIGHT NOT PRODUCE SUFFICIENT REVENUE TO CARRY OUT SAG'S AMBTIOUS DEVELOPMENT PLANS.

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# AIRGRAM

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TO: Department of State

DEPT PLEASE PASS: ABU DHABI, DHAHRAN, DOHA, KUWAIT, RIYADH, TEHRAN

SECRET

FROM: Amembassy Jidda DATE: FEB 15,

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: Saudi Oil Situation - 1978 NO

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Summary The Saudi oil production ceiling of 8.5 million barrels per day (mmbd) is unlikely to be tested in 1978, a year of expected low demand. The SAG in fact seems prepared to reduce its production still farther to help support the current OPEC price structure, if necessary.

In spite of a projected soft demand for oil in th next two years, the Saudi Arabian Government (SAG has authorized Aramco to increase productive capa into the 1980's, although at rates less than the company would like. Due largely to the SAG's insistence that it remain on a self-financing regime (financing capital expenditures on oil production programs entirely out of its retained earnings), Aramco has had to reduce its productio goals for the mid-1980's to a sustained rate of n more than 12.5 mmbd. Much of the expenditure wil be for programs designed to maintain current production levels in oil fields experiencing pressur maintenance, salinity, corrosion, and other probl

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OPTIONAL FORM 247 (FORMERLY FS- DS-323) MARCH 1978 DEPT. OF STATE

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Saudi sentiment for resource conservation is growing, and is likely to create increasing problems for expansion programs as the one hundred percent takeover of Aramco moves forward. Saudi oil policy can, however, be set by Crown Prince Fahd in opposition to those trends if political considerations, such as movement toward a Middle East settlement, warrant it.

Although possibilities exist that the USG could stimulate somewhat higher rates of Saudi oil production in the mid-1980's, the diminished likelihood of large production increases from Saudi Arabia points to an earlier arrival of the "oil crunch" unless strong U.S. energy measures are enacted.

I. Current Production and Prices Saudi oil production in 1978 will be limited by a self-imposed ceiling of 8.5 mmbd. This figure was reimposed by Oil Minister Yamani following 1977's unsuccessful attempt to beat down the OPEC level of prices through increased production, and generally corresponds with what oil market analysts expect will be the normal level of demand for Saudi oil in a soft market. Depending on the rate of economic recovery in the industrialized countries, the limitation, if maintained, may begin to constrain potential sales some time in 1979. Yamani has warned that renewed growth of oil consumption in 1979-80 could produce a major new price jump, and of course the production limitation, if held firmly when demand does begin to rise, would accelerate such a tendency. It should be noted, however, that the ceiling is based on an average rate for the year and, moreover, may apply to crude exports rather than production.

Oil production for 1977 averaged slightly over 9.2 mmbd, as liftings increased toward year end. Aramco's production in December was a surprising 9.5 mmbd, reflecting perhaps some precautionary buying before the OPEC conference, as well as the effect of cold weather in the U.S. Current sustained productive capacity for Aramco is 10.5 mmbd, according to company sources. Although the technical

limitations on production of certain fields, imposed by the Saudis in late summer, appear to be nominally in effect, they are without major effect during this period of low demand We note that the Ghawar field, which is subject to such technical limitations, was producing at 5.2 mmbd in November, the last month for which we have statistics.

Saudi oil prices, particularly for the heavy crudes, continue to be relatively attractive. (Even after the recent cut in price by Kuwait, its crude remains approximately 25¢ per barrel more expensive than the equivalent Saudi oil.) We have noticed no major change in the ratio of Saudi sales of heavy crude to light crude, however; it continues to run at about 4 to 1 in favor of the light crudes (which are from the fields under technical limitation).

The Saudis, however, do not intend to push crude sales; their policy in fact is probably the reverse. Yamani was quoted after the OPEC oil conference to the effect that Saudi Arabia would be ready, in the current soft oil market, to reduce its production if necessary to keep current prices firm, and there are indications that Saudi assurances on this score were useful in securing Iranian support for the price freeze at Caracas. The SAG, in this respect, seems to have moved closer to a formal acknowledgement of its role as swing producer and price stabilizer in OPEC, and to accepting some kind of unilateral prorationing responsibility.

II. Finances. The financial situation of Aramco, which produces 97% of Saudi oil, has become a question of major importance in establishing the country's oil production capacities. The company has traditionally funded its capital programs out of its cash flow, which has been adequate even for the major capacity expansions (approximately 1 mmbd per year) of the last few years. However, escalating project costs, unexpectedly high costs for maintenance of current production levels, plus the front-end capital requirements associated with building the gas gathering and Eastern Province Electrification schemes for the Saudi government, began to reach and

exceed cash flow availabilities in 1977 and created a serious financial crisis at the end of the year. As a result, the company for the first time had to apply to the SAG for a budgetary allocation to allow it to continue its programs.

The SAG response to Aramco's problem has been to put the company on a "self-financing" regime with respect to its oil production activities. The government has on one hand agreed to advance money to fund the gas and electrification projects; we understand that the SAG has already advanced SR 100 million for the electrification and $300 million for the gas project. This will relieve from Aramco's cash flow the substantial burden of payment against reimbursement lags of sometimes many months -- particularly as the capital requirements of the gas gathering program will peak over the next years. Aramco has, we understand, told the SAG that it will have to tailor its work on those two projects to the amount of money advanced by the SAG.

On the other hand, Aramco has been told that its oil production programs must be financed entirely from internally generated funds, and that it can expect no help from the state budget. With retained profits about 50¢ per barrel, that means that the company will have only $1.5 billion to spend each year (at current rates of production) for all its capital costs associated with oil production, expansion, and related infrastructure. Current production upgrading and expansion plans (see below) call for an expenditure of about $8.5 billion, indicating a completion date of about 1984. The major element of this program will be the requirement to upgrade substantially the current injection and production facilities so as to maintain present rates of production from existing fields. Added to that requirement will be the cost of developing new fields, increased supporting infrastructure including increasing employee costs, and new security precautions. (Fire disaster "single risking" precautions taken at Abqaiq alone since last May's fire have cost more than $300 million.)

III. Expansion Programs Clearly, a major constraint on Aramco's expansion programs is the financial situation

described above. The company has had to tailor back its earlier plans for an installed facilities capacity of 16 mmbd in the mid-1980's to a more modest 13.5 mmbd -- indicating a probable sustained production rate of about 12-12.5 mmbd in 1984. About 11.5 mmbd of this capacity is expected to come from the existing major fields (approximately the same as present capacity), but only at the considerable expense of installing new (and, in some cases, replacing old) water injection, production, desalting, and pipeline facilities, as well as reworking the numerous wells now shut in. These major expenditures will be required to correct the deterioration of equipment and oilfield pressures being experienced at major fields such as Ghawar, Berri, and Abqaiq. The remaining 2 mmbd would come from expansion of production at existing, underproduced fields and tying in new ones not producing at present.

A further constraint on expansion of Aramco's productive capacity is the question of Saudi government policy. The internal debate within the SAG on the relative advantages of high versus low rates of oil production and financial accumulation has not been resolved, and is unlikely to be in the near run. Its existence, however, limits the company's options severely, and undoubtedly was instrumental in shaping the decision to put Aramco on its limited "self-financing" regimen. The company presently operates with Saudi members of its board from the Petroleum Ministry who, although they often dispute items with the parent company representatives have been basically open to increased production plans. But following the takeover of Aramco, production-related expenditures and expansion plans are likely to be given a harder vetting, and perhaps a lower priority, by a board which may well include more Saudi officials opposed to expansion of oil production.

One element of existing Saudi policy which may constrain expansion plans is the SAG desire to decrease sales of light crudes relative to the heavier ones. Expansion of productive capacity for the heavier crudes could be every bit as expensive as for the lights, with less return to show for financing further increases.

A final problem which will hold back availability of Saudi crude for export is the rapid growth of internal petroleum product consumption. Saudi Arabia is a net importer of white products already, and is continuing to expand its transportation and light industrial sectors markedly with little consideration to cost factors (internal petroleum product prices are virtually subsidized). By the mid-1980's, the Saudis will probably be consuming over .75 mmbd of their own production locally.

IV. Exploration and Reserves Aramco once again discovered more oil in 1977 than it produced, keeping to its traditional record of adding each year to its reserves. No new field discoveries, however, were made during the year, and all new reserves were developed as outward delimitations of existing fields. Aramco sources estimate that the discovery rate will plateau within the next five years, and that about 30 billion barrels of reserves are all that can be added to today's 177 billion (proven and probable). The Saudi government, according to Yamani's recent comments, appears to believe that its reserves will give it somewhat less than thirty years' production at a sustained rate of less than 12 mmbd before beginning a rapid decline.

The Ministry of Petroleum is sponsoring seismic and geophysical exploration in areas outside the Aramco retained areas, but so far has not moved to issue exploration licenses or concessions. Considerable interest in some of those areas has been shown in past by oil companies, and it is possible that some significant discoveries and additional reserves could be proved if the areas were opened up. The low present priority given to such activity by the SAG, however, indicates that the likelihood of any important production increments coming from new areas by the mid-1980's is low.

V. Saudi Policy Aramco officials consistently claim that the main constraint facing them in increasing oil productive capacity is political. While this undoubtedly minimizes the extent of the technical, physical, and financial problems involved in creating increased production capacity, the fact remains that Saudi policy considerations have become a pervasive and determining element of the company's planning process.

Company officials are concerned that it may take very persuasive arguments to raise the present 8.5 mmbd ceiling. Our own feeling is that Saudi flexibility will depend to a large degree on external political factors such as movement toward Middle East peace. Given a promising or favorable political climate, we believe the SAG would not be able to hold to a ceiling which would have the effect of driving prices up sharply if held with persistence. On the other hand, if the Saudis are disappointed by political developments, there will be considerable internal political pressure to limit production as a means of influencing the behavior of the major oil importing countries.

There is, of course, no clear SAG policy on many of the issues determining future production rates. The debate between those who would restrict future production increases and those who would allow no or only minimal increases (no Saudis speak for unfettered increases) is, moreover, unlikely to be solved in the near future. In the past, Aramco was able to take advantage of any lack of SAG policy to move forward on its own. Today, with the 100% takeover all but complete as far as the companies are concerned, they can no longer assume such freedom; absence of clear policy freezes their options. The decision to put the company on a self-financing regime is a clear example of the compromise situations which the company will have to live with increasingly: while not formally rejecting the company's proposals to build greater production capacity, the government simply denied it the capability of going beyond a certain level in the foreseeable future.

The government's role is pervasive, the technical competence of its people increasing, and their readiness to stake out positions based on conservative resource-management principles also increasing. Setting budget priorities, monitoring oilfield pressures, determining the permitted use of other resources such as aquifer water, setting oilfield production rates, and otherwise, Saudi officials at the technical level can seriously affect the company's ability to reach its production goals even without higher policy decisions.

The hundred percent takeover of Aramco may be completed in 1978, but not necessarily so. Questions of royal family leadership and succession have complicated an already complex fabric of bureaucratic rivalries and policy conflicts so as to make prediction of a takeover date virtually impossible. In the meantime, Aramco has continued to operate under an interim regime which is financially similar to the arrangements negotiated in the draft takeover agreement, and subject to effective SAG control, but control exercised through a board of directors whose Saudi members are not hostile to the company's production goals. The post-takeover regime, company management fears, is almost certain to be less agreeable and much more likely to impose new conservationist priorities on the company's already limited expenditure programs. The form or powers of the post-takeover corporate entities have not yet been decided, and one of the key issues in this respect is whether the company will be subsidiary to a sponsoring Ministry of Oil, or a general government corporation dependent on the Council of Ministers or some other authority. Indications point to a structure consisting of a Saudi holding company and two dependent operating companies, one for production and one for oil sales, but no firm decisions have been taken. Consensus, the preferred Saudi method for decisionmaking, may be impossible to reach on the various takeover arrangements.

Saudi policy on oil questions over the past year has not, however, always been marked by consensus. The decisions before the Doha and Caracas OPEC conferences to push for oil price freezes were reportedly taken largely on the authority of Crown Prince Fahd against the advice of the majority (or even all) of the members of the High Petroleum Council. Prince Fahd's decisions in this respect were taken to a large degree for political reasons in the broader context of the Middle East peace effort, and to enhance U.S. recognition of the special U.S.-Saudi relationship. Such politicization of Saudi oil policy, while beneficial to us at present is not without its dangers.

Implications for the U.S. If Saudi Arabia can produce at a sustained rate of 12 or 12.5 million b/d only by 1984 or even 1985 (even assuming all "technical limitation" problems cited above are resolved), the energy crunch for the U.S. could arrive sooner than has been forecast in recent studies. A common supposition in the studies has been that Saudi Arabia would reach 13 million b/d in 1982 or 1983, and would eventually go to 16 million b/d in the mid-1980's. The forecasters may be required to revise their equations for the world energy supply model of the early 1980's.

Should the energy crunch for the U.S. (and the rest of the industrial world) occur sooner than present studies indicate, the programs of conservation and of search for alternate energy sources would have to be accelerated in the U.S.

There may, however, be some possibility for the U.S. to urge the SAG toward an upward revision of the above production figures. While the oil fields currently producing the lighter, more attractive crudes may indeed be limited in their capacity to produce large new increments of supply, other fields with substantial reserves (most of them heavy oil but one or two with light oil) will not be produced by the mid-1980's due almost exclusively to the SAG's limitations on capital expenditure programs. With the proper incentives -- economic and political -- the SAG might be encouraged to produce those fields, thereby adding up to 2 mmbd of additional sustained production capability. Prince Fahd and other other senior SAG officials have indicated that they would try to be helpful if the industrialized countries truly needed additional Saudi oil to avoid economic crisis.

Initiatives to this effect from the USG would, of course, increase the political content of an already heavily political oil supply relationship.

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RUQMOD/AMEMBASSY DOHA 522
RUKOBT/AMEMBASSY JAKARTA 215
RUQMKW/AMEMBASSYSKUWAIT 3817
RUTALS/AMEMBASSY LAGOS 177
RUFHLC/AMEMBASSY LIBREVILLE 16
RUDTC/AMEMBASSY LONDON 3838
RUFNPS/AMEMBASSY PARIS 1775
RUESQI/AMEMBASSY QUITO 43
RUQMYA/USLO RIYADH 1448
RUQMHR/AMEMBASSY TEHRAN 2461
RUEHKO/AMEMBASSY TOKYO 337
RUFHAU/AMEMBASSY VIENNA 214
RUFHGV/USMISSION GENEVA 248
BT
S E C R E T JIDDA 2347

E.O. 11652: GDS
TAGS: ENRG, SA
SUBJ: APRIL 3 OPEC MEETING - UNIT OF ACCOUNT FOR PRICING OIL

1. DEPUTY MINISTER OF PETROLEUM AND MINERALS, ABDUL AZIZ TURKI, TOLD CHARGE ON MARCH 26 THAT SAG WOULD ATTEND THED APRIL 3 OPEC MEETING IN GENEVA AT MINISTERIAL LEVEL. MEETING WILL NOT HAVE A PREDETERMINED AGENDA, BUT QUESTION OF DENOMINATING OIL PRICES IN A NEW UNIT OF ACCOUNT BASED ON A BASKET OF CURRENCIES WILL PROBABLY BE DISCUSSED.

2. CHARGE ASKED TURKI WHAT THE SAG POSITION WILL BE IF THIS ISSUE IS RAISED, AND TURKI REPLIED THAT SAG WOULD HAVE TO MAKE AN OBJECTIVE JUDGMENT ON WHERE ITS INTERESTS LIE CONSIDERING BOTH SHORT AND LONG TERM FACTORS. HE SAID THAT SAG HAD NOT AS YET REACHED ANY FINAL CONCLUSIONS.

3. CHARGE ASKED IF A FINAL DECISION FOR OPEC WOULD BE REACHED AT THE APRIL MEETING, AND TURKI REPLIED THAT ISSUE WOULD PROBABLY BE DISCUSSED AND THEN TURNED OVER TO OPEC'S ECONOMIC STAFF FOR FURTHER STUDY. STAFF WILL PROBABLY BE ASKED TO SUBMIT ITS RECOMMENDATIONS TO THE JUNE OPEC MEETING.

14/24

## SECRET

4. COMMENT: WHILE SAUDIS HAVE BEEN QUITE FIRM IN MAINTAINING THAT THEY WILL CONTINUE TO ASK FOR PAYMENT FOR THEIR OIL IN DOLLARS, THEY HAVE BEEN RATHER AMBIGUOUS ON THE POSSIBILITY OF CHANGING THE UNIT OF ACCOUNT TO SOME OTHER COMBINATION OF CURRENCIES. WE BELIEVE THAT SAUDIS ARE ACUTELY CONSCIOUS OF THEIR OWN VAST DOLLAR DENOMINATED HOLDINGS AND WILL NOT TAKE ANY STEPS THAT MIGHT FURTHER AFFECT THE DOLLAR'S EXCHANGE RATE WITHOUT CAREFUL CONSIDERATION OF ALL RAMIFICATIONS OF SUCH AN ACTION.

5. RECOMMENDATION: IF DEPT OR INTELLIGENCE COMMUNITY HAS AN ANALYSIS OF THE CONSEQUENCES OF SUCH A MOVE ON THE WESTERN ECONIES AND ON THE VALUE OF THE DOLLAR, WE MIGHT CONSIDER PASSING IT TO THE SAUDIS BEFORE THE APRIL 3 OPEC MEETING.

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ACTION: ECONS **INCOMING TELEGRAM** CONTROL NO. 5853

INFO:
AMB 1
DCM 1
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CRU 1
SHIR 1
TABR
ISFA

R 181243Z APR 78 CONFIDENTIAL
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASH DC 1755
INFO RUQMBI/AMEMBASSY ABU DHABI 1425
RUEHCR/USINT BAGHDAD 251
RUFHBS/AMEMBASSY BRUSSELS 424
RUQMDH/AMCONSUL DHAHRAN 955
RUQMOD/AMEMBASSY DOHA 532
RUQMKW/AMEMBASSY KUWAIT 3854
RUDTC/AMEMBASSY LONDON 3856
RUQMAM/AMEMBASSY MANAMA 1240
RUQMHR/AMEMBASSY TEHRAN 2482
RUEHKO/AMEMBASSY TOKYO 340
BT

FSE 2
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ACTION COPY

C O N F I D E N T I A L JIDDA 2921

BRUSSELS FOR USEEC

E.O. 11652: GDS
TAGS: ENRG, SA
SUBJECT: COMMENTS BY SAUDI OFFICIALS ON SAG OIL POLICIES

1. IN COURSE OF MEETINGS WITH NATIONAL WAR COLLEGE GROUP, MINISTER OF PETROLEUM ZAKI YAMANI AND MINISTER OF PLANNING HISHAM NAZER MADE SEVERAL STATEMENTS WHICH HELP ILLUMINATE SAG OIL POLICIES.

2. WHEN ASKED WHETHER SAUDI ARABIA WOULD EXPAND PRODUCTION TO 16 MILLION B/D BY 1985, YAMANI SAID HE HAD SEEN REPORTS THAT THIS COULD BE AMOUNT OF PRODUCTION NEEDED FROM SAUDI ARABIA, BUT HE THOUGHT THAT THESE REPORTS EXAGERATED REQUIREMENTS/ HE THEN ADDED THAT "EVEN IF YOU NEED THAT MUCH, YOU WILL NOT GET IT". COMMENT: THIS IS THE BLUNTEST STATEMENT WE HAVE HEARD FROM SAG THAT FUTURE SAUDI PRODUCTION INCREASES WILL BE LIMITED. END COMMENT.

3. ASKED HOW DECISIONS ARE MADE WITHIN SAG ON PRODUCTION, YAMANI SAID THESE DECISIONS ARE MADE BY PETROLEUM COUNCIL ON BASIS OF EXPECTED WORLD DEMAND, RATE OF DEPLETION AND LIFE SPAN OF SAUDI RESOURCES, AND NEEDS OF FUTURE GENERATIONS IN SAUDI ARABIA.

4. IN DISCUSSING DOLLAR, YAMANI MADE USUAL SAG DISTINCTION BETWEEN OIL PRICING AND OIL PAYMENT. HE SAID THAT AS FAR AS PAYMENT WAS CONCERNED, THERE WAS NO OTHER CURRENCY THAT CAN BE USED. IN FACT, NO OTHER COUNTRY WOULD AGREE TO HAVING ITS CURRENCY USED FOR THIS PURPOSE. IF MARK OR YEN WERE USED, THEN VALUE OF THAT CURRENCY WOULD BE IMMEDIATELY DOUBLED.SPRICING IS ANOTHER MATTER. IF CURRENCY BASKET IS USED FOR THAT PURPOSE, DOLLAR

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PRICE WOULD DEPEND ON VALUE OF DOLLAR IN BASKET. HE REVIEWED EARLIER INDEXATION EFFORTS (GENEVA I AND II), BUT AVOIDED GIVING ANY INDICATION OF SAG'S CURRENT POSITION OR POSITION OF ITS OPEC PARTNERS.

5. PLANNING MINISTER NAZER TOLD GROUP, IN RESPONSE AREA, THAT SAG BELIEVES THAT INTERNATIONAL COMPANIES SHOULD BUILD ALL THEIR FUTURE PETROCHEMICAL PLANTS IN PRODUCING AREAS, PARTICULARLY IN THE GULF. HE SAID SAG BELIEVES MARKET WILL SUPPORT NEW PLANTS BY 1983, AND THAT THERE WILL BE SHORTAGE OF PETROCHEMICAL CAPACITY AFTER 1986.

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ACTION: ECON 5 INCOMING TELEGRAM CONTROL NO. 6785

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R 041330Z MAY 78
INFO: FM AMEMBASSY DJIBOUTI
TO RUEHC/ SECSTATE WASHDC 902
AMB/ INFO RUTABA/ AMEMBASSY ADDIS ABABA 432
DCM/ RUFHOL/ AMEMBASSY BONN 35
RUEHEG/ AMEMBASSY CAIRO 181
SA RUQMKM/ AMEMBASSY KHARTOUM 178
POL 2 RUDTC/ AMEMBASSY LONDON 72
ECON RUQMDI/ AMEMBASSY MOGADISCIO 253
RUQMNI/ AMEMBASSY NAIROBI 538
PM/ RUFNPS/ AMEMBASSY PARIS 321
ICA/ RUFHRO/ AMEMBASSY ROME 49
CONS RUQMNS/ AMEMBASSY SANA 200
RUQMHR/ AMEMBASSY TEHRAN 31
OR/ RUEHDT/ USMISSION USUN NEW YORK 214
ADM RUDOMBA/ CINCUSNAVEUR
GSO RUSNAAA/ USCINCEUR
RUFRSGG/ COMIDEASTFOR
BF RUHQMQA/ CINCPAC
PER BT
HU C O N F I D E N T I A L DJIBOUTI 631

RSO E.O. 11652: GDS
MSG TAGS: EAID, PDIP, PDEV, BEXP, DJ, SA
TSO SUBJ: SUBSTANTIAL SAUDI ASSISTANCE PROGRAM FOR DJIBOUTI

SCRO 1. AFTER MANY MONTHS OF GESTATION, A SAUDI ASSISTANCE PROGRAM TOTALI
CRO RLY U. S. DOLS. 60
TCU MILLION WASK CONCLUDED WITH THEGOVERNMENT OF DJIBOUTI THIS PAST
MP WEEK AND ANNOUNCED PUBLICLY ON 2 MAY. THE PROJECTS COVER MANY
CRITICAL AREAS, INCLUDING TELECOMMUNICATIONS, EDUCATION, IMPROVEMENT
DAO IN PORT AND AIRPORT SERVICES, ROADS, RELIGION, HOUSING, HEALTH AND
MAAG SOCIAL SERVICES.

AGR 2. FOLLOWING IS A DESCRIPTION OF THE PROJECTS. THE DOLLAR
DEA TOTALS HAVE NOT BEEN ANNOUNCED PUBLICLY. THEY WERE OBTAINED
IRS FROM A REPUTABLE DJIBOUTI GOVERNMENT SOURCE:
TCTR 2- ELECTRIC TURBINE FOR THE DJIBOUTI ELECTRIC COMPANY.
THIS MACHIBC WILL PROOABLY BE PURCHASED FROM FRENCH FIRM THAT
CEOC SUPPLIED EXISTING EQUIPMENT. VALUE: 4,000,000
CEOR - ADDITIONAL AIRPORT PARKING APRON. AT PRESENT TIME, ONLY ONE
CRU 1 BOEING 747 CAN BE PARKED IN AREA OF AIRPORT TERMINAL. THIS WILL ADD
ONE ADDITIONAL TAXING AND PARKING AREA FOR LARGE AIRCRAFT. VALPE
DOLS. 1,907,500
SHIR 1 - CITY FREEZING PLANT. TO ASSIST IN VUVELOPMENT OF LOCAL LIVESTOCK
TABR COMMERCIALIZATION. AT PRESENT TIME, MOST MEAT CONSUMED IN DJIBOUTI
CITY II S IMPORTED. KVVBRJE. DOLS. 1,700,000
ISFA - SATELLITE EARTH STATION. THIS PROJECT WAS DESCRIBED IN EMBTEL
FAA 354. VALUE OF PROJECT DOLS. 2,500,000
- LOW COST HOUSING FOR CIVIL SERVANTS. FIRST TRANCHE COSTS
DOLS. 5,000,000
- MICRWOWAVE SYSTEM TO SUPPORT EARTH STATION, ALSO DESCRIBED

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IN EMVTEL 354. COST DOLS. 2,000,000
- FEASIBILITY STUDY FOR TADJOURAH-DJIBOUTI ROAD. DOLS 500,000
- AGRICULTURE. PROJECTS PLANNED FOR DJIBOUTI AREA (AMBOULD AND GRAND BARA. MONEY ALLOCATED DOLS 5,000,000
FEASIBILITY AND DESIGN STUDY FOR WATER BOTTLING PLANT AT TADJOURAH. COST US DOLS 900,000
- HOSPITAL CONSTRUCTION. TO BUILD TWO NEW WINGS AT THE PELTIER HOSPITAL IN DJIBOUTI AND FOR DESIGN STUDY FOR HOSPITAL AT OBOCK. COST DOLS. 6,400,000
- ORPHANAGE FOR DJIBOUTI, COST DOLS. 500,000
- ARAB LANGUAGE PRINTSHOP. COST DOLS. 1,000,000
- EQUIPMENT FOR GOVERNMENT OFFICES (TYPEWRITERS, COPIERS, ETC.) MONEY ALLOCATED: DOLS. 1,800,000
- EDUCATION-ACCORDING TO EMBASSY INFORMANT, THIS MONEY WILL BE ADDED TO OVERALL EDUCATION BUDGET (NO TIME-LIMIT SPECIFIED) AND CAN BE USED FOR FRENCH LANGUAGE INSTRUCTION AS WELL AS CONVERSION TO ARABIC LANGUAGE CURRICULUM. ALLOCATION DOLS. 14,000,000
- CONSTRUCTION OF MOSQUES. COST DOLS 1,600,000
- BUDGET ASSISTANCE. COST DOLS. 5,000,000
- TOTAL VALUE OF PROJECTS: DOLS 59,887,500

3. BECAUSE OF SAUDI CONCERN RE POSSIBILITIES FOR MALFEASANCE, A PROJECT MANAGER WILL BE ASSIGNED TO THE SAUDI EMBASSY, DJIBOUTI TO SUPERVISE DISBURSEMENTS.

4. PROJECTS WILL BE DEVELOPED VIA INTERNATIONAL TENDERS. POST WOULD APPRECIATE ANY INSIGHTS FROM AMEMBASSY JIDDA ABOUT SAUDI BUILDING PRACTICE SOME AMERICAN COMPANIES HAVE CONSIDERABLE EXPERIENCE WORKING WITH THE SAUDI GOVERNMENT IN SAUDI ARABIA AND ELSEWHERE, AND WE WOULD HOPE THAT SOME OF THE ABOVE PROJECTS WOULD BE ACCORDED TO U.S. FIRMS. CLARK

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ACTION ECONS **INCOMING TELEGRAM** CONTROL NO.

1978 MAY 23 ... 8:52

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INFO

R 220950Z MAY 78
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 2120
RUQMBI/AMEMBASSY ABU DHABI 1440
RUFHRS/AMEMBASSY ALGIERS 641
RUEHCR/USINT BAGHDAD 259
RUQMBE/AMEMBASSY BEIRUT 7067
RUFHOL/AMEMBASSY BONN 567
RUFHBS/AMEMBASSY BRUSSELS 433
RUESRS/AMEMBASSY CARACAS 177
RUQMDM/AMCONSUL DHAHRAN 1144
RUQMOD/AMEMBASSY DOHA 547
RUFHGV/USMISSION GENEVA 253
RUKOBT/AMEMBASSY JAKARTA 221
RUQMKW/AMEMBASSY KUWAIT 3890
RUTALS/AMEMBASSY LAGOS 184
RUFHLC/AMEMBASSY LIBREVILLE 23
RUDTC/AMEMBASSY LONDON 3873
RUFNPS/AMEMBASSY PARIS 1802
RUESQI/AMEMBASSY QUITO 47
RUQMYA/USLO RIYADH 1649
RUQMHR/AMEMBASSY TEHRAN 2508
RUEHKO/AMEMBASSY TOKYO 348
RUQMTI/AMEMBASSY TRIPOLI 947
RUFHAU/AMEMBASSY VIENNA 220
BT
C O N F I D E N T I A L JIDDA 3800

E.O. 11652: GDS
TAGS: ENRG,SA
SUBJECT: YAMANI ON OIL PRICES

1. DEPARTMENT WILL PROBABLY HAVE NOTICED TEXT OF INTERVIEW GIVEN BY MIN PET YAMANI TO CHICAGO TRIBUNE ECONOMIC EDITOR LAST WEEK IN RIYADH, IN WHICH YAMANI DISCUSSED POSSIBILITY OF OIL PRICE INCREASE IN 1979. AFTER DESCRIBING HIS PROJECTION OF OIL MARKET IN TERMS SIMILAR TO ONES HE USED WITH JOURNALISTS AT END OF TAIF OPEC MEETING (I.E., SURPLUS FOR ANOTHER YEAR OR SO, MARKET EQUILIBRIUM FOR ANOTHER 5-6 YEARS, THEN PERIOD OF OIL SHORTAGE), YAMANI MADE ARGUMENT FOR SERIES OF GRADUAL OIL PRICE INCREASES IN EARLY 1980'S, RATHER THAN EFFORT TO HOLD PRICES DOWN ONLY TO HAVE THEM GO THROUGH ROOF IN SUBSEQUENT SHORTAGE PERIOD. IN SHORT TERM, HE SAID, THERE IS 50-50 CHANCE OF OIL PRICE INCREASE AT BEGINNING OF 1979.

2. COMMENT: YAMANI'S RECENT STATEMENTS SEEM TO BE SIGNALLING THAT SAG WILL CONTINUE STRONGLY TO OPPOSE PRICE RISE IN 1978, BUT THAT ITS POLICY ON PRICE IN 1979 AND BEYOND WILL BE INFLUENCED BY ITS PERCEPTION

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ACTION
FSE 2-7

OF WHAT MARKET WILL BEAR. GIVEN INCREASING CONSERVATIONIST ATMOSPHERE IN SAUDI ARABIA, LOW CURRENT PRODUCTION RATES ARE ACCEPTABLE TO SAG, WHICH IS PREPARED TO PLAY ITS PREDOMINANT ROLE IN SUPPORTING OPEC PRICE LEVEL AS LONG AS OTHER PRODUCERS ARE NOT MANEUVERING TOO BLATANTLY TO INCREASE THEIR MARKET SHARE AT SAUDI EXPENSE. LOW CURRENT PRODUCTION HAS EASED IMMEDIATE PRESSURE ON SAG TO INCREASE EVENTUAL PRODUCTION CAPACITY, WHILE AT SAME TIME REDUCING THE FUNDS AVAILABLE TO DO SO. THE SAG UNDOUBTEDLY FINDS THE RESULTANT AMBIGUITY ABOUT ITS FUTURE PRODUCTION CAPACITY AND INTENTIONS TO BE A CONSTRUCTIVE PROD TO CONSUMING NATIONS TO REDUCE OIL IMPORTS, AND BELIEVES THAT THE PROSPECT OF MODERATE PRICE RISES IN THE 1980'S WILL ALSO BE INCENTIVE FOR REDUCED IMPOTS. WE BELIEVE THAT SAG CAN BE EXPECTED TO MOVE DELIBERATELY (AND PROBABLY UNILATERALLY), FOLLOWING THE PRESENT PERIOD OF GLUT, IN A WAY WHICH WILL HELP KEE THE MARKET TIGHT AND PRICES FIRM OR CLIMBING GRADUALLY. GIVEN SAUDI ARABIA'S ABILITY TO INFLUENCE THE SIZE OF THE POTENTIAL OIL SHORTAGE HE FORESEES FOR MID-1980'S, YAMANI'S COMMENTS SHOULD PERHAPS BE SEEN MORE AS PREDICTIONS OF INTENT RATHER THAN AS DISINTERESTED ESTIMATES.

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MEMORANDUM OF CONVERSATION

BEW
RF

SUBJECT: Bonn Economic Summit, Oil Policies, and Aid

PARTICIPANTS: H.R.H. Prince Saud bin Faisal
Minister of Foreign Affairs

H.E. Abdullah M. Ali Reza
Deputy Minister for Economic, Petroleum
and Cultural Affairs, Foreign Ministry

Richard Cooper
Under Secretary of State for Economic Affairs

Ambassador John C. West

Joseph O. Eblan
Counselor for Economic and Commercial Affairs

PLACE: Ministry of Foreign Affairs
summer office, Taif

DATE: July 22, 1978

DISTRIBUTION: AmEmbassies London, Rome, Paris, Tokyo, Ottawa, Bonn and OPEC countries; State (NEA/ARP, EB/FSE); Amb/DCM, POL, ECON.

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Under Secretary Cooper opened the discussion stating that the President wished him to give Saudi Arabia a briefing on the Bonn Economic Summit. He stated that this was his first trip to Saudi Arabia. Prince Saud replied that he hoped that this would be the first of many visits by Under Secretary Cooper and that the Kingdom valued the insights provided by such visits.

Under Secretary Cooper then gave the Minister an in-depth briefing on the Bonn Economic Summit, particularly emphasizing the role of the Summiteers and the parallel group of officials of which he was part, nicknamed the Sherpas or guides. Cooper explained that the atmosphere of the Summit

was excellent but that perhaps the world press over-emphasized this aspect since there were serious problems discussed, particularly in the sherpa segment. Among the main problems which surfaced was the one of economic growth in Germany where new investment was at a low rate and unemployment was growing. As for the United States, Under Secretary Cooper indicated that there had been a wider sense of understanding on the part of the Europeans and Japan for U.S. problems, and an awareness that steps were being taken, particularly in energy conservation where, without specific legislation, the U.S. was achieving a better record than some European countries.

Prince Saud then stated that during his recent visit to Europe with King Khaled, he had noticed particularly the Europeans' awareness and understanding of America's problems. He stated that the Europeans acknowledged U.S. economic leadership but want the U.S. to take firmer stands and come down hard on petroleum conservation. He made a downswipe motion with his hand to emphasize the point. Ambassador West said that this information, which confirms our experience at the Summit, was of great interest, and hoped that SAG-U.S. cooperation in this respect would continue to grow in the interest of both countries.

Regarding oil prices and finance, Prince Saud noted that Saudi Arabia as well as other OPEC countries were getting less return on their oil sales due to the decline of the dollar. This problem is now being compounded by self-imposed production limitations, which were effected not only to safeguard reserves, but to comply with OPEC co-member interests. Saudi Arabia had to comply with reasonable demand by fellow OPEC members and had to weigh this action against the desire to contribute to economic stability in the western world. In reply to Under Secretary Cooper's query, he stated that Saudi maximum sustained production of petroleum was a bit over 10 million b/d, and that heavy financial expenditures would have to be made by SAG to increase this level. At the present time, the daily production limit for 1978 is 8.5 million b/d. (Note: Average daily production for the first 5 months of 1978 has been about 7.2 million b/d.)

Regarding further solution of energy conservation in the U.S., Prince Saud noted that institution of an equalization tax (COET) on oil imports is a matter only the U.S. can decide, but that this could lead to higher prices by producers. In this case, Saudi Arabia would find it difficult to hold the price line.

Regarding aid, Under Secretary Cooper stated that, with the present attitude of the U.S. public towards taxes, the increase of U.S. aid levels would be the most difficult subject to present to Congress in the coming months. Cooper acknowledged U.S. awareness of the significant high levels of Saudi aid giving and hoped that this would be maintained and even increased. He pointed out the very heavy proportion of U.S. aid to Egypt which he believed will continue. Prince Saud mentioned the problems of being an aid donor, particularly to Egypt, because of the difficulty in identifying meaningful project aid in new investments due to the slowness of Egyptian bureaucracy in changing investment laws and providing data. Nevertheless, it was in SAG/US mutual interest to maintain the level of aid to Egypt for many reasons. (Note: At this point Abdullah Ali Reza passed two written notes to Prince Saud. FYI. Abdullah Ali Reza regards aid to Egypt as a necessary rat-hole operation.) Prince Saud made no further comment on aid to Egypt.

Under Secretary Cooper returned to the Summit briefing and explained that the terrorism statement by the participants was broached by Trudeau of Canada. Since the occasion presented a good opportunity for a joint position on the subject, the anti-terrorism statement was made and approved.

Under Secretary Cooper opined to Prince Saud that all the European governments now seemed to be coalitions of varying degrees from which one could assume that agreements at the Summit represented national concensus on the part of the European countries. Even the Japanese ruling party was a coalition of sorts. This was a phenomenon worthy of note since it matched the policy divisions that prevail in the U.S. Under Secretary Cooper stated that the U.S. had urged the Europeans to stimulate more economic growth and the

Japanese to widen the opening to its markets for investment as well as trade. Investment in Japan, however, would continue to be a problem because of language as well as restrictive Japanese regulations. A heartening sign for the health of the U.S. economy was the heavy surge of foreign investment in the U.S., particularly by Germany and lately by Japan.

Under Secretary Cooper mentioned the potential for Saudi Arabia increasing co-financing of aid with international organizations. Prince Saud indicated that Saudi Arabia was amenable to the support of IMF and a selective quota increase. He also mentioned positive Saudi policy towards various regional development bank aid outlets as well as the World Bank. SAG hoped at least to maintain its levels of aid outflows through these channels.

Under Secretary Cooper mentioned his appreciation for Saudi comments and hoped to visit the Kingdom again. Prince Saud expressed gratitude of the Saudi Government for the excellent briefing on the Summit and looked forward to further visits by the Under Secretary.

EC:JOEblan:lvs:7/25/78

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28 Jul 78 07 D1092[illegible]

ACTION:
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DNNNVV ESB043YAA657
DE RUQMHR
P [illegible] RUQMIA #0623 2081215
[illegible] CCCCC ZZH
P 270955Z JUL 78
FM USLO RIYADH
TO RUEHC/SECSTATE WASHDC 618
INFO RUQMBI/AMEMBASSY ABU DHABI 30
RUEHMA/AMEMBASSY AMMAN 90
RUEHCR/USINT BAGHDAD 17
RUEHEG/AMEMBASSY CAIRO 86
RUQMDE/AMCONSUL DHAHRAN 310
RUQMOD/AMEMBASSY DOHA 18
RUQMKU/AMEMBASSY KUWAIT 61
RUQMAM/AMEMBASSY MANAMA 33
RUQMMT/AMEMBASSY MUSCAT 12
RUQMNS/AMEMBASSY SANA 48
RUQMRH/AMEMBASSY TEHRAN 33
RUQMRA/AMEMBASSY JIDDA 871
BT
C O N F I D E N T I A L RIYADH 623

E.O. 11652: GDS
TAGS: EFIN, SA
SUBJ: SAUDI RESPONSE TO BUDGET DEFICIT

REF: (A) JIDDA 09276, (B) RIYADH 605

1. THE EMBASSY HAS PREVIOUSLY REPORTED LIKELIHOOD OF SAG DEFICIT THIS FISCAL YEAR. USLO HAS LEARNED THAT IN REVIEWING THE BUDGET THE COUNCIL OF MINISTERS WAS FACED WITH A MUCH LARGER PROSPECTIVE DEFICIT WHICH IT AVOIDED ONLY BY REQUIRING ALL MINISTRIES TO USE ONLY TWO-THIRDS OF WHAT THE MINISTRY OF FINANCE HAD AUTHORIZED THEM TO SPEND. THIS YEAR'S BUDGET WAS BASED ON THAT REDUCED TOTAL. AS A RESULT EACH MINISTRY HAS BEEN REASSESSING ITS PROGRAMS TO IDENTIFY WHICH PROJECTS CAN BE CUT. IN THE MEANTIME PROJECTS HANG IN LIMBO, FUNDS HAVE BEEN FORZEN, AND A MOOD OF UNCERTAINTY PREVAILS AMONG ADVISORS AND CONTRACTORS.

2. THE SHORTFALL APPEARS TO HAVE CAUGHT THE SAG COMPLETELY BY SURPRISE, LARGELY BECAUSE THE MINISTRY OF FINANCE HAD NO WAY TO SYSTAMATICALLY RELATE FUNDING DECISIONS TO ANTICIPATED REVENUES. REQUESTS FROM MINISTRIES WERE EXAMINED AND APPROVED INDIVIDUALLY WITHOUT ANY REFERENCE TO AN OVERALL SPENDING CEILING. ONLY AFTER THE MINISTRY OF FINANCE MADE BINDING FUNDING COMMITMENTS TO OTHER MINISTRIES DID IT ADD UP THE TAB. TO ITS HORROR IT FOUND THAT NOT ONLY WAS PROJECT FUNDING 40 PERCENT; IT WAS FAR IN EXCESS OF PROJECTED REVENUES BASED ON THE SAUDI OIL PRODUCTION CEILING OF 8.5 MILLION B/D. FINANCE PRESENTED THE FIGURES TO THE COUNCIL OF

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MINISTERS AND ASKED FOR HELP. THE COUNCIL OF MINISTERS RESPONDED WITH A DECREE CUTTING PROJECT EXPENDITURES BY 33 PERCENT, THE AMOUNT FINANCE CALCULATED NECESSARY TO WIPE OUT THE DEFICIT.

3. THE DECREE CAME OUT IN MID-JUNE AND OFFICIALS ARE STILL HAVING DIFFICULTY IMPLEMENTING IT. FIRST, MANY SIMPLY DELAYED TAKING ACTION BECAUSE THEY DID NOT BELIEVE THE CUT WOULD BE ENFORCED. THEN QUESTIONS AROSE AS TO WHAT BASE THE 33 PERCENT CUT WAS TO BE IMPOSED ON. BUT MOST IMPORTANT, MINISTRIES ARE THROWN BACK INTO THE PLANNING STAGE SINCE THEY MUST REASSESS PRIORITIES AND TRY TO MAINTAIN THE OUTLINES OF PROGRAMS THAT WERE MEANT TO BE MUCH LARGER. THE MINISTRY OF AGRICULTURE AND WATER HAS BEEN HARD HIT BECAUSE IT HAD RECEIVED THE BIGGEST PERCENTAGE INCREASE AND NOW MAY HAVE TO DISMANTLE AN INTEGRATED TEAM OF SPECIALISTS WHO CANNOT BE EASILY REASSEMBLED. WE HAVE HEARD RUMORS THAT FUNDING FOR SEVERAL OF THE REGIONAL ELECTRIFICATION PROJECTS WAS IN DOUBT AND HAVE BEEN TOLD BY ARAMCO THAT IT WAS ABLE TO BREAK LOOSE FUNDS FOR THE EASTERN PROVINCE ELECTRIFICATION SCHEME ONLY WITH DIFFICULTY. FINALLY, SEVERAL CORPS OF ENGINEERS PROJECTS WITH THE MINISTRY OF DEFENSE HAVE BEEN UNEXPECTEDLY DEFERRED (SEE REF B) AND THE CORPS HAD TO APPLY UNPRECEDENTED PRESSURE TO GET A COMMITTMENT ABOUT WHICH PROJECTS WERE FUNDED.

4. ONLY AFTER GETTING THE COUNCIL OF MINISTERS TO ACT DID THE MINISTRY OF FINANCE REALIZE THAT THE CUT IT HAD RECOMMENDED TO THE COUNCIL WAS BASED ON WHAT SHOULD HAVE BEEN AN OBVIOUS OVERSIGHT; DUE TO SLACK DEMAND OIL LIFTINGS WERE NOT 8.5 MILLION B/D BUT ONLY 7.2. THE MINISTRY IS UNDERSTANDABLY RELUCTANT TO GO BACK TO THE COUNCIL OF MINISTERS AND HAS RESIGNED ITSELF TO DRAWING FROM SAMA HOLDINGS ABROAD IF AN ACTUAL DEFICIT MATERIALIZES. THAT DEFICIT COULD BE AS MUCH AS 5 BILLION DOLLARS ASSUMING THAT OIL LIFTINGS STAY AT 7.2, OPEC PRICES DO NOT RISE, AND EVERY RIYAL THAT WAS BUDGETED IS SPENT. IN FACT OVERALL SPENDING LAST YEAR WAS 96 PERCENT AND THERE IS A FEELING IN THE MINISTRY OF FINANCE THAT OPEC PRICES WILL SOON BE INCREASED BY ABOUT 5 PERCENT. BUT EVEN THAT WOULD COVER ONLY FOUR MONTHS OF THE DEFICIT, OTHER FACTORS CONSTANT.

5. THE MINISTRY OF FINANCE IS UNPREPARED FOR THE NEW AGE OF LIMITS IN YET ANOTHER RESPECT; IT HAS NO MECHANISM FOR REGULATING CASH FLOWS SO THAT FUNDS ARE NOT SPENT FASTER THAN OIL IS PUMPED. LEGALLY A MINISTRY MAY DRAW ITS ENTIRE ALLOCATION AT THE BEGINNING OF THE YEAR. WHILE THIS IS NOT LIKELY TO BE A PROBLEM THIS YEAR BECAUSE OF FUNDING DELAYS IT INDICATES THAT SAG IS GOING TO HAVE TO HIRE BUDGET CONSULTANTS AS WELL AS PLANNERS.

6. COMMENT: THE INCOME CONSTRAINT ON NATIONAL DEVELOPMENT HAS BEEN FORCEFULLY BROUGHT HOME TO THE COUNCIL OF MINISTERS. THE FACT THAT THE SAG WAS SO SURPRISED AND REACTED SO STRONGLY SUGGEST THAT THERE MAY SOON BE POLICY SHIFTS ON SUCH ISSUES AS OPEC PRICING.

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RR RUQMHR
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ZNY CCCCC ZZH
R 272055Z JUL 78
FM USLO RIYADH
TO AUSEC/SECSTATE WASHDC 618
INFO RUQMBI/AMEMBASSY ABU DHABI 38
RUEHMA/AMEMBASSY AMMAN 98
RUEHGR/USINT BAGHDAD 17
RUEHEG/AMEMBASSY CAIRO 86
RUQMDH/AMCONSUL DHAHRAN 310
RUQMOD/AMEMBASSY DOHA 18
RUQMKW/AMEMBASSY KUWAIT 61
RUQMAM/AMEMBASSY MANAMA 33
RUQMMT/AMEMBASSY MUSCAT 12
RUQMNS/AMEMBASSY SANA 48
RUQMER/AMEMBASSY TEHRAN 33
RUQMJA/AMEMBASSY JIDDA 871
BT
C O N F I D E N T I A L RIYADH 623

E.O. 11652: GDS
TAGS: EFIN, SA
SUBJ: SAUDI RESPONSE TO BUDGET DEFICIT

REF: (A) JIDDA 3676, (B) RIYADH 605

1. THE EMBASSY HAS PREVIOUSLY REPORTED LIKELIHOOD OF SAG DEFICIT THIS FISCAL YEAR. USLO HAS LEARNED THAT IN REVIEWING THE BUDGET THE COUNCIL OF MINISTERS WAS FACED WITH A MUCH LARGER PROSPECTIVE DEFICIT WHICH IT AVOIDED ONLY BY REQUIRING ALL MINISTRIES TO USE ONLY TWO-THIRDS OF WHAT THE MINISTRY OF FINANCE HAD AUTHORIZED THEM TO SPEND. THIS YEAR'S BUDGET WAS BASED ON THAT REDUCED TOTAL. AS A RESULT EACH MINISTRY HAS BEEN REASSESSING ITS PROGRAMS TO IDENTIFY WHICH PROJECTS CAN BE CUT. IN THE MEANTIME PROJECTS HANG IN LIMBO, FUNDS HAVE BEEN FORZEN, AND A MOOD OF UNCERTAINTY PREVAILS AMONG ADVISORS AND CONTRACTORS.

2. THE SHORTFALL APPEARS TO HAVE CAUGHT THE SAG COMPLETELY BY SURPRISE, LARGELY BECAUSE THE MINISTRY OF FINANCE HAD NO WAY TO SYSTEMATICALLY RELATE FUNDING DECISIONS TO ANTICIPATED REVENUES. REQUESTS FROM MINISTRIES WERE EXAMINED AND APPROVED INDIVIDUALLY WITHOUT ANY REFERENCE TO AN OVERALL SPENDING CEILING. ONLY AFTER THE MINISTRY OF FINANCE MADE BINDING FUNDING COMMITMENTS TO OTHER MINISTRIES DID IT ADD UP THE TAB. TO ITS HORROR IT FOUND THAT NOT ONLY WAS PROJECT FUNDING 40 PERCENT; IT WAS FAR IN EXCESS OF PROJECTED REVENUES BASED ON THE SAUDI OIL PRODUCTION CEILING OF 8.5 MILLION B/D. FINANCE PRESENTED THE FIGURES TO THE COUNCIL OF

MINISTERS AND ASKED FOR HELP. THE COUNCIL OF MINISTERS RESPONDED WITH A DECREE CUTTING PROJECT EXPENDITURES BY 33 PERCENT, THE AMOUNT FINANCE CALCULATED NECESSARY TO WIPE OUT THE DEFICIT.

3. THE DECREE CAME OUT IN MID-JUNE AND OFFICIALS ARE STILL HAVING DIFFICULTY IMPLEMENTING IT. FIRST, MANY SIMPLY DELAYED TAKING ACTION BECAUSE THEY DID NOT BELIEVE THE CUT WOULD BE ENFORCED. THEN QUESTIONS AROSE AS TO WHAT BASE THE 33 PERCENT CUT WAS TO BE IMPOSED ON. BUT MOST IMPORTANT, MINISTRIES ARE THROWN BACK INTO THE PLANNING STAGE SINCE THEY MUST REASSESS PRIORITIES AND TRY TO MAINTAIN THE OUTLINES OF PROGRAMS THAT WERE MEANT TO BE MUCH LARGER. THE MINISTRY OF AGRICULTURE AND WATER HAS BEEN HARD HIT BECAUSE IT HAD RECEIVED THE BIGGEST PERCENTAGE INCREASE AND NOW MAY HAVE TO DISMANTLE AN INTEGRATED TEAM OF SPECIALISTS WHO CANNOT BE EASILY REASSEMBLED. WE HAVE HEARD RUMORS THAT FUNDING FOR SEVERAL OF THE REGIONAL ELECTRIFICATION PROJECTS WAS IN DOUBT AND HAVE BEEN TOLD BY ARAMCO THAT IT WAS ABLE TO BREAK LOOSE FUNDS FOR THE EASTERN PROVINCE ELECTRIFICATION SCHEME ONLY WITH DIFFICULTY. FINALLY, SEVERAL CORPS OF ENGINEERS PROJECTS WITH THE MINISTRY OF DEFENSE HAVE BEEN UNEXPECTEDLY DEFERRED (SEE REF B) AND THE CORPS HAD TO APPLY UNPRECEDENTED PRESSURE TO GET A COMMITTMENT ABOUT WHICH PROJECTS WERE FUNDED.

4. ONLY AFTER GETTING THE COUNCIL OF MINISTERS TO ACT DID THE MINISTRY OF FINANCE REALIZE THAT THE CUT IT HAD RECOMMENDED TO THE COUNCIL WAS BASED ON WHAT SHOULD HAVE BEEN AN OBVIOUS OVERSIGHT; DUE TO SLACK DEMAND OIL LIFTINGS WERE NOT 8.5 MILLION B/D BUT ONLY 7.2. THE MINISTRY IS UNDERSTANDABLY RELUCTENT TO GO BACK TO THE COUNCIL OF MINISTERS AND HAS RESIGNED ITSELF TO DRAWING FROM SAMA HOLDINGS ABROAD IF AN ACTUAL DEFICIT MATERIALIZES. THAT DEFICIT COULD BE AS MUCH AS 5 BILLION DOLLARS ASSUMING THAT OIL LIFTINGS STAY AT 7.2, OPEC PRICES DO NOT RISE, AND EVERY RIYAL THAT WAS BUDGETED IS SPENT. IN FACT OVERALL SPENDING LAST YEAR WAS 96 PERCENT AND THERE IS A FEELING IN THE MINISTRY OF FINANCE THAT OPEC PRICES WILL SOON BE INCREASED BY ABOUT 5 PERCENT. BUT EVEN THAT WOULD COVER ONLY FOUR MONTHS OF THE DEFICIT, OTHER FACTORS CONSTANT.

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INFO RUQMKW/AMEMBASSY KUWAIT 271
RUQMTI/AMEMBASSY TRIPOLI 283
RUQMBI/AMEMBASSY ABU DHABI 97
RUFHRS/AMEMBASSY ALGIERS 216
RUQMOD/AMEMBASSY DOHA 76
RUQMHR/AMEMBASSY TEHRAN 362
RUTALS/AMEMBASSY LAGOS 302
RUKOBT/AMEMBASSY JAKARTA 306
RUFHLC/AMEMBASSY LIBERVILLE 84
RUESQI/AMEMBASSY QUITO 2371
RUQMGU/AMEMBASSY ANKARA 58
RUQMAT/AMEMBASSY ATHENS 103
RUDKEBQ/AMEMBASSY BERN 60
RUFBOL/AMEMBASSY BONN 314
RUFHBS/AMEMBASSY BRUSSELS 213
RUDKPNQ/AMEMBASSY COPENHAGEN 62
RUFHDB/AMEMBASSY DUBLIN 25
RUDTC/AMEMBASSY LONDON 1028
RUFHBG/AMEMBASSY LUXEMBOURG 26
RUFHMD/AMEMBASSY MADRID 796
RUDKSNQ/AMEMBASSY OSLO 49
RUEHOT/AMEMBASSY OTTAWA 295
RUFNPS/AMEMBASSY PARIS 966
RUFHRO/AMEMBASSY ROME 493
RUDKFMQ/AMEMBASSY STOCKHOLM 97
RUDKGPQ/AMEMBASSY THE HAGUE 272
RUEHKO/AMEMBASSY TOKYO 243
RUFHAU/AMEMBASSY VIENNA 453
RUEHBAZ/AMEMBASSY WELLINGTON 20
RUEHCR/USINT BAGHDAD 65
RUQMDH/AMCONSUL DHAHRAN 218
BT
C O N F I D E N T I A L SECTION 1 OF 4 CARACAS 10288

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

E.O. 11652: GDS
TAGS: ENRG OPEC EFIN VE SA
SUBJECT: SAUDI OIL MINISTER YAMANI VISITS VENEZUELA

CONFIDENTIAL

REF: A) CARACAS 10158 B) JIDDA 7694 NOTAL

SUMMARY: SAUDI OIL MINISTER YAMANI CONCLUDED A FIVE DAY SURPRISE VISIT TO VENEZUELA SAYING THAT THE POSITIONS OF THE TWO COUNTRIES ARE NOW VERY CLOSE ON THE QUESTION OF AN OIL PRICE INCREASE AND THAT THEY WILL BE IN AGREEMENT AT THE OPEC MINISTERIAL MEETING DECEMBER 16. LITTLE INFORMATION IS AVAILABLE SO FAR ON THE PURPOSE OF THE VISIT AND ON THE SUBSTANTIVE DISCUSSIONS YAMANI HELD WITH PRESIDENT PEREZ AND ENERGY MINISTER HERNANDEZ, OTHER THAN THAT YAMANI DELIEVED A LETTER TO PEREZ FROM THE SAUDI ROYAL FAMILY. YAMANI MADE BRIEF COMMENTS ON THENORTH SOUTH DIALOGUE, THE MIDDLE EAST AND THE US ROLE THERE.
THIS WAS YAMANI'S FIRST STRICTLY BILATERAL VISIT TO CARACAS AFTER YEARS OF PLANNING SUCH A TRIP. WHILE HERE HE LAVISHED EFFUSIVE PRAISE ON VIENEZUELA AND PERESIDENT PEREZ. IT APPEARS THA THE SAUDIS ARE MAKEING A PARTICULAR EFFORT TO STRENGTHEN THEIR OFTEN TROUBLED TIES WITH VENEZUELA. IT IS STILLUNCLEAR WHAT THIS MAY MEAN FOR US INTERESS. END SUMMARY.

1. SPEIK YAMANI ARIVED AT CARACAS OCTOBER 25 ACCOMPANIED BY HIS WIFE. THEY WERE HERE AS GUESTS OF PERESIDENT PEREZ AND ENERGY MINISTER BERNANDEZ. ALTHOUGH THRE HAVE BEEN REPEATED REPORTS FOR MORE THAN A YEAR THAT SUCH A YAMANI VISIT WAS IMMINENT, THE VISIT CAME AS A SURPRISE. YAMANI WAS GIVEN TREATMENT USUEALLY RESERVED FOR CHIEFS OF STATE AND THROUGHOUT HIS VISIT HE WAS
ACCOMPANIED BY MINISTER HERNANDEZ WHILE MRS YAMANI WAS HOSTED BY THE MINISTER'S WIFE. YAMANI HAD A PRIVATE DINNER WITH HERNANDEZ THE NIGHT OF HIS ARRIVAL AND SPENT THE FOLLOWING DAY MEETING WITH HERNANDEZ, RECEIVING BRIEFING FROM PETROLEOS DE VENEZUELA, THE STATE OIL HOLDING COMPANY, AND CONFERRING WITH PERESIDENT PEREZ, WHO HOSTED A DINNER IN HIS HONOR THAT NIGHT. SAUDI CHARGE ABDULLAH ALTOBAISHI HELD A RECEPTION FOR THE YAMANIS FRIDAY EVENING OCTOBER 27. OVER THE WEEKEND YAMANI VISITE THE LARGE XPANSION PROJECTS AT HE CIDUDAD GUAYANA STEEL AND ALUMINUM COMPLEX IN EASTERN VENEZULA BUT APPARENTLY DID NOT VISIT VENEZUELA'S MAJOR OIL PRODUCING INSTALLATIONS. HE LEFT VENEZUELAN THE EVENING OCTOBER 29.

2. SUBSTANTIVE INFORMATION ON THE PURPOSE OF HIS VISIT AND ON THE SUBJECTS DISCUSSED WITH PEREZ AND HERENDEZ HAS BEEN VERY LIMITED AND THEREHAVE BEE NO OFFICIAL STATEMENTS. VENEZUELAN OFFICIALS ARE NOT TALKING. YAMANI WAS REPORTED TO BE VISITING VENEZUELA IN HIS CAPACITY AS PRESIDENT OF OPEC'S MINISTERIAL COMMITTEE ON STRATEGIES AND TO HAVE DELIEVED A PERSONAL LETTER TO PERESIDENTPEREZ FROM THE SAUDI ROYAL FAMILY, ALTHOUGH REPORTS DIFFERED AS TO WHETHER THIS LETTER WAS FROM KING KHALID OR PRINCE FAHD.

3.

3.- YAMANI MADE RELATIVELY FEW PUBLIC COMMENTS DURING HIS VISIT, PROBABLY IN PART BECAUSE OF THE CONSTANT SECURITY SURROUNDING HIM AS WELL AS THE LANGUAGE BARRIER. FOLLOWING A MEETING WITH PRESIDENT PEREZ OCTO 26, HE EXPRESSED HIS APPRECIATIONFOR THE OPPORTUNITY TO EXCHANGE POINTS OF VIEW WITH PEREZ, SAYING THAT THEY ARZIN FULL AGREEMENT, PARTICULARY ON OIL MATTERS. YAMANI MADE A SPECIAL POINT OF CITING PEREZ'S VISIT TO SAUDI ARABIA AND OTHER MIDDLE EASTER OPEC COUNTRIES IN THE SPRING OF 1977 AS THE EVENT WHICH BROUGHT TO A SUCCESSFUL CONCLUSION THE DISPUTE (OVER PRICE LEVELS)WHICH AROSE FROM THE DECEMBER 1976 OPEC MEETING. HE CONCLUDED BY SAYING THAT THE TWO COUNTRIES ARE LOOKING FORWARD ENTHUSIASTICALLY TO THE UPCOMING OPEC MEETING IN ORDER TO PROVE THAT OPEC CONTINUES AND WILL CONTINUE TO BE AS STRONG AS EVER. YAMANI ALSO TAKED AT SOME LENGTH TO THE ASSOCIATE DIRECTOR OF THE ENGLISH LANGUAGE DAIL JOURNAL WHO

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INFO RUQMKW/AMEMBASSY KUWAIT 272
RUQMTI/AMEMBASSY TRIPOLI 284
RUQMBI/AMEMBASSY ABU DHABI 98
RUFHRS/AMEMBASSY ALGIERS 217
RUQMOD/AMEMBASSY DOHA 77
RUQMHR/AMEMBASSY TEHRAN 363
RUTALS/AMEMBASSY LAGOS 303
RUKOBT/AMEMBASSY JAKARTA 387
RUFHLC/AMEMBASSY LIBERVILLE 85
RUESQI/AMEMBASSY QUITO 2372
RUQMGU/AMEMBASSY ANKARA 59
RUQMAT/AMEMBASSY ATHENS 104
RUDKEBQ/AMEMBASSY BERN 81
RUFBOL/AMEMBASSY BONN 315
RUFNBS/AMEMBASSY BRUSSELS 214
RUDKPNQ/AMEMBASSY COPENHAGEN 63
RUFHDB/AMEMBASSY DUBLIN 26
RUDTC/AMEMBASSY LONDON 1029
RUFHBG/AMEMBASSY LUXEMBOURG 27
RUFHMD/AMEMBASSY MADRID 797
RUDKSNQ/AMEMBASSY OSLO 50
RUEHOT/AMEMBASSY OTTAWA 296
RUFNPS/AMEMBASSY PARIS 967
RUFNRO/AMEMBASSY ROME 494
RUDKFMQ/AMEMBASSY STOCKHOLM 98
RUDKGPC/AMEMBASSY THE HAGUE 273
RUEHKO/AMEMBASSY TOKYO 244
RUFHAU/AMEMBASSY VIENNA 454
RUEHBAZ/AMEMBASSY WELLINGTON 21
RUEHCR/USINT BAGHDAD 66
RUQMDH/AMCONSUL DHAHRAN 219
BT
C O N F I D E N T I A L SECTION 2 OF 4 CARACAS 10288

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

REPORTED THAT YAMANI HAD SAID HE HAD DELIEVERED A PERSONAL LETTER
TO PERESIDENT PEREZ FROM KING KHALID IN THE US, AND THAT HE
WAS REPAYING MINISTER HERNANDEZ'S MANY VISITS TO SAUDI ARABIA. (ALL

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OTHER REPORTS DESCRIBED THE LETTERS AS BEING FROM PRINCE FAHD).
YAMANI ALSO SAID THAT THERE CAN BE NO DOUBT THAT OIL PRICES
WILL GO UP IN THE FUTURE, BUT HAT THE REAL QUESTION IS HOW FAST.
HE PREFERRED TO SE A GRADUAL RISE, THE PACE OF WHICH WOULD DEPEND ONVARI
SUPPLY AND DEMAND FACTORS, AND SUGGESTED THAT OIL PRICES WOULD
PEAK AROUND 1987. YAMANI APPARENTLY AGREED WITH THE VIEW OF SOME
IN VENEZUELA THAT OPEC SHOULD BE OVERHAULED TO GIVE THE ORGANIZATION
GREATER UNITY AND FORCE IN THE FUTURE. THE WAS ALSO REPORTED TO
BE EMPHATIC I SAYING THAT THE POLITICAL SITUATION IN THE MIDDLE
EASTONOUEDTHE SHEDO ATTITUDE TOWARD PRICE
AND PRODUCTION, BUT ADDED THAT THERE WOULD BE DEFINITELY NOT
BE ANOTHER OIL EMBARGO AGAINST THE INDUSTRIALIZED COUNTRIES.

4. ON HIS DEPARTURE THE EVENING OF OCTOBER 29, YAMANI ALSO
GAVE AN INTERVIEW TO AN ENGLISH SPEAKING REPORTER OF THE
GOV'S TELEVISION CHANNEL. ASKED ABOUT HIS TALKS W
TH PRESIDENT
PEREZ ON OIL PRICES, YAMANI REPLIED THAT WHILE HE TRIED O
LEAVE DISCUSSIONS OF THIS QUESTION TO THE OPEC MEETINGS, HE COULD
SAY THAT SAUDI ARABIA AND VENZUELA NOW HOLD ALMOST THE SAME
POSITION ON THIS QUESTION, AND THEREFORE THEY WILL TAKE THE
SAME POSITION IN ABU DHABI. WITH RESPECT TO THE USE OF THE DOLLAR
IN OPEC PRICING, HE EXPLAINED THAT SAUDI ARABIA HAS LARGE INVEST-
MENT IN THE DOLLAR, WHICH WOULD FALL EVEN FURTHER IF OPEC LEFT
IT NOW, AND THEREFORE HE BELIEVED OPEC WOULD CONTINUE TO USE
DOLLARS IN PRICING. COMMENTING ON THE ISRAELI-EGYPTIOAN PEACE
TALKS, HE SAID THE ARAB POSITION IS THAT THERE WILL BE NO PEACE
IN THE AREA UNLESS THE RIGHTS OF THE PALESTINIAN PEOPLE ARE
OBSERVED AND THE OCCUPIED TERRITORIES RETURNED. ANY MOVES IN
THIS DIRECTION WOULD BE WELCOME, HE SAID, WHILE ANYTHING SHORT OF
THIS WAS NOT ENOUGH. YAMANI ALSO SPOKE HIGHLY OF PRESIDENT CARTER'S
HONESTY AND DEDICATION IN IMPROVING RELATIONS BRTWEEN THE ARABS
AND THE US, AND, IN THE AREA OF OIL, IN MOVING FROM CONFRONTATION
TO A POSITION OF COOPERATION. ASKED ABOUT THE NORTH-SOUTH
DIALOGUE, HE SAID THERE IS NO ALTERNATIVE TO THIS DIALOGUE,
AND EXPRESSED THE VIEW THAT IT WOULD SUCCEED IN THE FUTURE
YAMANI WAS PARTICULARLY RESPONSIVE TO A NUMBER OF QUESTIONS
ABOUT SAUDI-VENEZUELAN RELATIONS, REFERRING TO THE MANY SIMILARITIES
BETWEEN THE TWO PEOPLE, WHO ARE OF THE SAME BLOOD BECAUSE OF THE
ARAB INFULENCE IN SPAIN. HE ALSO COMMENTED ON THE MANY MUTUAL
INTERESTS AND CLOSE COOPERATION BETWEEN THE TWO COUNTRIES, WHICH,
ALBEIT IN REPLY TO A LEADING QUESTION, HE SAID HAD BEEN
IMPROVED BY THE WORK OF PRESIDENT PEREZ AND MINISTER HERNANDEZ.
THIS, HE ADDED, WAS IMPORTANT NOT ONLY FOR THE TWO COUNTRIES
BUT ALSO FOR OPEC AND FOR THE I TERNATIONAL COMMUNITY. FINALLY,
NOTING VENEZUELA'S WEALTH, ITS DEMOCRACY, AND ITS GEOGRAPHICAL
LOACTION, YAMANI SAID THESE MAKE IT PARTICULARLY IMPORTANT TO
THE OTHER DEVELOPING COUNTRIES.

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5. ACCOMPANYING YAMANI DURING HIS VISIT, MINISTER HERNANDEZ WAS ALSO ASKED ABOUT THE PURPOSE OF THE VISIT AND OIL PRICES. AS IS HIS CUSTOM HOWEVER, HE ALSO REFUSED TO BE PINNED DOWN. REGARDING THE VISIT, HE SAID ONLY THAT THE TALKS HAD COVERED MANY ISSUES AND THAT THE TWO COUNTRIES WERE IN GENERAL AGREEMENT. AS TO VENEZUELA'S POSITION ON OIL PRICES FOR THE DECEMBER OPEC MEETING, HERNANDEZ REFUSED TO COMMENT SAYING THAT TO DO SO WOULD REDUCE OPEC'S FLEXIBILITY IN REACHING A FINAL DECISION. EARLY IN THE VISIT, HOWEVER, HERNANDEZ WAS QUOTED AS SAYING THAT THERE WERE THREE DISTINCT POSITIONS ON PRICES WITHIN OPEC; THE CONSERVATIVE POSITION WHICH HOLDS THAT PRICES SHOULD NOT INCREASE OVER 5 PERCENT, THE MODERATE POSITION FAVORING AN 8 TO 12 PECENT INCREASE, AND THE RADICAL VIEW WHICH LOOKS TO AN INCREASE OF A LEAST 15 PERCENT. (IT SHOULD BE NOTED THAT THE GOV CONSISTENTLY DESCRIBES ITSELF AS A MODERATE ON OIL PRICING.)

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RUQMRA/AMEMBASSY JIDDA NIACT IMMEDIATE 3143
INFO RUQMKW/AMEMBASSY KUWAIT 273
RUQMTI/AMEMBASSY TRIPOLI 285
RUQMBI/AMEMBASSY ABU DHABI 99
RUFHRS/AMEMBASSY ALGIERS 218
RUQMOD/AMEMBASSY DOHA 78
RUQMHR/AMEMBASSY TEHRAN 364
RUTALS/AMEMBASSY LAGOS 304
RUKOBT/AMEMBASSY JAKARTA 308
RUFFLC/AMEMBASSY LIBERVILLE 96
RUESQI/AMEMBASSY QUITO 2373
RUQMGU/AMEMBASSY ANKARA 60
RUQMAT/AMEMBASSY ATHENS 105
RUDKEBQ/AMEMBASSY BERN 82
RUFBOL/AMEMBASSY BONN 316
RUFEBS/AMEMBASSY BRUSSELS 215
RUDKPNQ/AMEMBASSY COPENHAGEN 64
RUFHDB/AMEMBASSY DUBLIN 27
RUDTC/AMEMBASSY LONDON 1036
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RUDKSNQ/AMEMBASSY OSLO 51
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RUDKFMO/AMEMBASSY STOCKHOLM 99
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RUEHKO/AMEMBASSY TOKYO 245
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RUEHBAZ/AMEMBASSY WELLINGTON 22
RUEHCR/USINT BAGHDAD 67
RUQMDH/AMCONSUL DHAHRAN 229
BT
C O N F I D E N T I A L SECTION 3 OF 4 CARACAS 10288

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

6. SPECULATION ON THE PURPOSE OF THE VISIT NATURALLY CENTERED ON OIL PRICES. ON REPORT EARLY IN THE VISIT CLAIMED THAT SAUDI ARABIA HAD PROPOSED A 5 TO 10 PERCENT

INCREASE IN DECEMBER, PLUS SUCCESSIVE INCREASES IN 1978, THERE HAS BEEN NO FURTHER COMMENT ON THIS OTHER THAN A CLAIM BY A LEFTIST UNIVERSITY ECONOMIST THAT SAUDI ARABIA HAD ALREADY AGREED WITH THE U.S. ON A 10 PERCENT INCREASE, BUT THAT THIS WAS NOT ENOUGH AND THAT VENEZUELA SHOULD INSIST ON A 30 PERCENT HIKE. WITH LITTLE MORE TO REPORT, MINISTER YAMANI'S VISIT WAS ALL BUT IGNORED IN THE WEEKEND PRESS WITH THE EXCEPTION OF TWO LONG ARTICLES BY THE DAILY JOURNAL. EDITORIAL COMMENT ON THE VISIT SO FAR HAS BEEN LARGELY LIMITED TO THE DAILY JOURNAL, WHICH ARGUED THAT THE VISIT WAS EVIDENCE OF SAUDI INTEREST IN MOVING CLOSER TO VENEZUELA ON OIL MATTERS, NOT ONLY ON PRICING BUT ALSO POSSIBLY TOWARD THE LONG-HELD VENEZUELAN POSITION FAVORING PRODUCTION CONTROLS WITHIN OPEC.

7. COMMENT. MINISTER HERNANDEZ HAS MADE REPEATED VISITS TO SAUDI ARABIA, MOST RECENTLY IN LATE SEPTEMBER, BUT IN SPITE OF A LONGSTANDING INVITATION FROM HERNANDEZ, THIS WAS YAMANI'S FIRST VISIT HERE OTHER THAN TO ATTEND OPEC MEETINGS IN 1970 AND 1977. THUS THE TIMING, AND THE LENGTH OF YAMAIN'S STAY, ARE SIGNIFICANT. (WE ALSO UNDERSTAND THAT KUWAITI OIL MINISTER ALI KHALIFA, WITH WHOM HERNANDEZ ALSO MET LAST MONTH, IS EXPECTED HERE NOVEMBER 14.)

8. WE UNDERSTAND FROM ONE SOURCE THE SOLE PURPOSE OF YAMANI'S VISIT WAS TO DELIVER THE LETTER TO PRESIDENT PEREZ FROM THE ROYAL FAMILY, AND SINCE YAMANI HAD COME FROM THE U.S., THIS WOULD LEND CREDENCE TO THE POSSIBILITY THAT THE LETTER WAS FROM KING KHALID RATHER THAN PRINCE FAHD. AS PEREZ IS OFTEN KNOWN TO SEND PERSONAL LETTERS TO OTHER OPEC HEADS OF STATE, WE CAN SPECULATE THAT THE SAUDI LETTER MAY HAVE BEEN REPLY TO ONE DELIVERED BY HERNANDEZ IN SEPTEMBER. IN THIS REGARD, WE WOULD APPRECIATE ANY INFORMATION AVAILABLE TO JIDDA ON HERNANDEZ VISIT THERE.

9. WE HAVE EVEN LESS INFORMATION AT THIS POINT ON THE CONTENTS OF THE LETTER OR THE SUBSTANCE OF TALKS. WE BELIEVE THAT YAMANI'S ONLY SUBSTANTIVE MEETINGS WERE THOSE WITH PEREZ AND HERNANDEZ, THE ONLY TWO GOV OFFICIALS WITH A MAJOR ROLE IN FORMULATING THE GOV'S POSITON ON OPEC OIL PRICING. IT IS UNDERSTOOD THAT YAMANI DID NOT REPEAT NOT DISCUSS THE QUESTION OF OIL PRICES DURING HIS TWO HOUR MEETING WITH THE DIRECTORS OF PETROLEOS DE VENEZUELA, EVEN THOUGH MOST OF THE NATIONAL OIL HOLDING COMPANY'S MARKETING STAFF WERE PRESENT AT THE MEETING. PETROLEOS PLAYS ALMOST NO PART IN OPEC PRICING POLICY; ITS PRICING RESPONSIBILITIES ARE LIMITED TO THE PRICING AND MARKETING OF VENEZUELAN OIL AFTER OPEC LEVELS ARE SET.

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10. THE GOV HAS NOT SPECIFIED ITS POSITION ON HOW MUCH PRICES SHOULD INCREASE, POSSIBLY REMEMBERING PEREZ' ILL-FATED PREDICTION LAST YEAR AT THIS TIME THAT PRICES WOULD BE INCREASED BY 8 PERCENT AT THE CARACAS OPEC MEETING. AS WE NOTED IN REF A, HOWEVER, VENEZUELA IS

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FM AMEMBASSY CARACAS
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RUQMRA/AMEMBASSY JIDDA NIACT IMMEDIATE 3144
INFO RUQMKW/AMEMBASSY KUWAIT 274
RUQMTI/AMEMBASSY TRIPOLI 286
RUQMBI/AMEMBASSY ABU DHABI 100
RUFHRS/AMEMBASSY ALGIERS 219
RUQMOD/AMEMBASSY DOHA 79
RUQMHR/AMEMBASSY TEHRAN 365
RUTALS/AMEMBASSY LAGOS 305
RUKOBT/AMEMBASSY JAKARTA 329
RUFHLC/AMEMBASSY LIBERVILLE 87
RUESQI/AMEMBASSY QUITO 2374
RUQMGU/AMEMBASSY ANKARA 61
RUQMAT/AMEMBASSY ATHENS 106
RUDEBBQ/AMEMBASSY BERN 83
RUFHOL/AMEMBASSY BONN 317
RUFHBS/AMEMBASSY BRUSSELS 216
RUDKPNQ/AMEMBASSY COPENHAGEN 65
RUFHDB/AMEMBASSY DUBLIN 28
RUDTC/AMEMBASSY LONDON 1031
RUFHEG/AMEMBASSY LUXEMBOURG 29
RUFHMD/AMEMBASSY MADRID 799
RUDKSNQ/AMEMBASSY OSLO 52
RUEHOT/AMEMBASSY OTTAWA 298
RUFNPS/AMEMBASSY PARIS 969
RUFHRO/AMEMBASSY ROME 496
RUDKFMQ/AMEMBASSY STOCKHOLM 100
RUDKGPQ/AMEMBASSY THE HAGUE 275
RUEHKO/AMEMBASSY TOKYO 246
RUFHAU/AMEMBASSY VIENNA 456
RUEHBAZ/AMEMBASSY WELLINGTON 23
RUEHCR/USINT BAGHDAD 68
RUQMDH/AMCONSUL DHAHRAN 221
BT
C O N F I D E N T I A L SECTION 4 OF 4 CARACAS 10288

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

ALMOST CERTAINLY LOOKING FOR AN INCREASE WELL IN EXCESS
OF 5 PERCENT, AND WITH NATIONAL ELECTIONS TAKING PLACE
ON DECEMBER 3, IT SEEMS HIGHLY UNLIKELY THAT GOV LEADERS

COULD AGREE, EVEN IN STRICTEST CONFIDENCE, TO AN INCREASE IN THE NEIGHBORHOOD OF 5 PERCENT, PRIOR TO THESE ELECTIONS. THE SAUDI CHARGE TOLD US A FEW WEEKS AGO THAT HIS COUNTRY WAS FIRM ON LIMITING THE PRICE INCREASE IN DECEMBER TO 5 PERCENT, BUT FOLLOWING YAMANI'S VISIT HE TOLD US THERE HAD BEEN A TOTAL MEETING OF THE MINDS ON ALL ISSUES. GIVEN OUR ASSESSMENT OF THE ORIGINAL GOV POSITION , THIS REMARK, IF ACCURATE, CAN ONLY MEAN THAT ONE OF THE OTHER PARTIES HAVE MOVED FROM THEIR ORIGINAL POSITION. ONE OBVIOUS POSSIBILITY FOR A COMPROMISE WOULD BE A 5 TO 7 PERCENT INCREASE IN DECEMBER, PLUS AN AGREEMENT ON ONE OR MORE INCREMENTAL INCREASES LATER IN 1979; IF AS DESCRIBED IN THE PRESS REPORT CITED ABOVE. YAMANI MAY ALSO HAVE USED THE VISIT TO COORDINATE WITH HERNANDEZ ON THE FINAL REPORT OF THE OPEC MINISTERIAL COMMITTEE ON STRATEGIES, WHICH WE UNDERSTAND IS TO MEET IN NOVEMBER TO PREPARE A FINAL REPORT TO THE DECEMBER OPEC MINISTERIAL MEETING.

11. FINALLY, THE VISIT ALMOST CERTAINLY REPRESENTED A SAUDI EFFORT TO STRENGTHEN OFTEN TROUBLED RELATIONS WITH VENEZUELA AND TO REPAY THE PAST VISITS OF HERNANDEZ AND PEREZ TO SAUDI ARABIA. YAMANI SEEMED TO GO OUT OF HIS WAY TO LAUD PRESIDENT PEREZ' ROLE IN SETTLING THE 1977 PRICE SPLIT AND HIS STAY HERE WAS WELL IN EXCESS OF THE TIME NEEDED FOR HIS SUBSTANTIVE DISCUSSIONS. ONE ISSUE, WHICH HAS ANGERED PRESIDENT PEREZ AND REFLECTED THE TROUBLED RELATION IS THE FACT THAT SAUDI ARABIA HAS NOT HAD AN AMBASSADOR HERE FOR A NUMBER OF YEARS AND THERE HAVE BEEN REPEATED RUMORS THAT THEIR CHARGE WAS ABOUT TO BE NAMED AMBASSADOR.

12. IT IS UNCLEAR WHY THE SAUDIS PICKED THIS MOMENT FOR THE VISIT. PERHAPS IT WAS IN PART A GESTURE TO PEREZ AS HE NEARS THE END OF HIS TERM IN OFFICE AND YET, ON THE VENEZUELAN SIDE THERE WAS LITTLE EFFORT TO EXPLOIT THE VISIT FOR DOMESTIC POLITICAL REASONS. IN FACT IT WAS GIVEN RATHER LOW KEY MEDIA TREATMENT. PEREZ DID ARRANGE FOR YAMANI TO APPEAR ON A LOCAL TELEVISION TALK SHOW WITH GROUND RULES THAT HE STAY AWAY FROM MIDDLE EAST POLITICS AND CONCENTRATE ON OIL.

13. THE MAJOR TOPIC OF THE MEETING WAS PROBABLY PRICING--A MAJOR U.S. INTEREST. WE SHOULDN'T DISCARD THE POSSIBILITY HOWEVER, THAT BROADER U.S. INTERESTS WERE INVOLVED SUCH AS LONG RANGE OPEC STRATEGY AND THE MIDDLE EAST IN GENERAL.

14. COMMENT FROM ADDRESSEE POSTS INVITED.

VV ESA494AAA661.
RR RUQMHR
DE RUQMRA #7820 3060545
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FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 3828
INFO RUQMYA/USLO RIYADH 2182
RUQMDH/AMCONSUL DHAHRAN 517
RUQMKW/AMEMBASSY KUWAIT 4012
RUQMTI/AMEMBASSY ABU DHABI 1523
RUQMOD/AMEMBASSY DOHA 606
RUQMHR/AMEMBASSY TEHRAN 2601
RUESRS/AMEMBASSY CARACAS 187
RUTALS/AMEMBASSY LAGOS 204
RUKOBT/AMEMBASSY JAKARTA 229
RUFHLC/AMEMBASSY LIBREVILLE 31
RUESQI/AMEMBASSY QUITO 55
RUQMGU/AMEMBASSY ANKARA 445
RUQMAT/AMEMBASSY ATHENS 1417
RUDKEBQ/AMEMBASSY BERN 83
RUFHOL/AMEMBASSY BONN 599
RUFHBS/AMEMBASSY BRUSSLS 451
RUDKPNQ/AMEMBASSY.COPENHAGE 50
RUFHDB/AMEMBASSY DUBLIN 18
RUDTC/AMEMBASSY LONDON 4004
RUFHBG/AMEMBASSY LUXEMBOUR 13D
BFHMD/AMEMBASSY MADRID 116
RUDKSNQ/AMEMBASSY OSLO 37
RUEHOT/AMEMBASSY OTTAWA 97
RUFNPS/AMEMBASSY PARIS 1915
RUFHRO/AMEMBASSY ROME 1008
RUDKFMQ/AMEMBASSY STOCKHOLM 40
RUDKGPQ/AMEMBASSY THE HAUE 136
RUEHKO/AMEMBASSY TOKYO 368
RUFHAU/AMEMBASSY VIENNA 235
RUEHBAZ/AMEMBASSY WELLINGTON 13
RUEHCR/USINT BAGHDAD 3102
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C O N F I D E N T I A L JIDDA 7820

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BRUSSELS ALSO FOR USEEC, PARIS ALSO FOR USOECD

E.O. 11652: GDS
TAGS: ENRG OPEC SA
SUBJECT: OPEC PRIJE DELIBERATIONS

REF: STATE 266410

1. SUMMARY. EMBASSY CONCURS WITH REFTEL PROPOSAL NOT TO APPROACH HIGHEST LEVELS OF SAG UNTIL AFTER BLUMENTHAL VISIT. HOWEVER, FOR A VARIETY OF INTERNAL AND EXTERNAL POLICITCAL AND ECONOMIC REASONS, THE SAUDIS WILL PROBABLY BE MUCH MORE RECEPTIVE TO COUNSELS OF PRICE MODERATION THAT TO A SERIES OF ARGUMENTS DESIGNED TO PERPETUATE A PRICE FREEZE. END SUMMARY.

1. THE EMBASSY CONCURS THAT NO APPROACH SHOULD BE MADE TO KEY SAUDI OFFICIALS UNTIL AFTER THE VISIT BY SECRETARY BLUMENTHAL. ONLY IN LIGHT OF THE RESULTS OF THIS VISIT CAN A PRESENTATION BE DESIGNED FOR MAXIMUM IMPACT ON SAUDI THINKING.

2. IT IS OUR IMPRESSION THAT THE SAG HAS NOT YET FIRMLY FIXED ON A POLICY POSITION REGARDING OPEC OIL PRICING FOR THE DECEMBER OPEC CONFERENCE, AND THEREFORE, WILL BE OPEN TO ANY POINTS WE MIGHT MAKE. HOWEVER, BECAUSE OF THE CONSIDERATIONS DETAILED BELOW, THE EMBASSY FEELS THAT THE SAUDIS WILL RESPOND MORE FAVORABLY IF THE UNITED STATES URGES MODERATION RATHER THAN ADVOCATING NO INCREASE AT ALL.

3. IN RECENT PUBLIC AND PRIVATE STATEMENTS SENIOR SAUDI OFFICIALS HAVE INDICATED THAT AT LEAST SOME INCREASE IS BEING SERIOUSLY CONSIDERED. THESE STATEMENTS IN LONDON, DEPUTY PETROLEUM MINISTER AL-TURKI'S STATEMENT LAST WEEK TO USEO/RIYADH OFFICERS, AND PRESS REPORTS ON YAMINI'S VISIT TO CARACAS WHERE HE STRESSED THAT OPEC UNITY AND STRENGTH WILL BE DEMONSTRATED AT THE ABUD DHABI MEETING.

4. OPEC UNITY HAS ALWAYS BEEN A MAJOR SAUDI OBJECTIVE. THE PRICE SPLIT WHICH OCCURRED IN THE FIRST HALF OF 1977 WAS AS TRAUMATIC FOR THE SAUDIS AS IT WAS FOR THEIR OPEC PARTNERS, AND ITS RESOLUTION DID NOT RESULT IN A CLEAR-CUT VICTORY WITHIN OPEC FOR SAUDI ARABIA. WE BELIVE IT IS UNLIKELY THAT THE

SAUDIS WOULD AGAIN JEOPARDIZE BOTH THEIR PRESTIGE AND THEIR LEADERSHIP ROLE WITHIN OPEC FOR A PRICE FREEZE AT THIS TIME.

5. THE SAUDIS ARE WELL AWARE OF BOTH THE DETERIORATING BALANCE OF PAYMENTS POSITION OF THEIR OPEC PARTNERS, AND THE PROBLEMS THAT IN DECLINE OF THE DOLLAR HAS CREATED FOR THOSE OPEC STATES WHOSE MAJOR TRADING PARTNERS' CURRECNIES HAVE APPRECIATED AS RESULT. THEY HAVE PROBABLY ALSO CALCULATED THAT THEY CAN EXPECT FAR LESS HELP FROM IRAN IN HOLDING THE LINE ON PRICES NOW THAT THE SHAH HAS BEEN FORCED TO CONSIDER CUTBACKS IN MAJOR DEFENSE AND ENERGY-JELATED PRUCHASES TO OBTAIN FUNDS NEEDED TO MEET DOMESTIC DEMANDS.

6. ANOTHER FACTOR WHICH WILL INFLUENCE THE SAUDIS IN FAVOR OF A PRICE INCREASE IS THEIR OWN CURRENT BUDGETARY PROBLEM. THE SAG HAS RECENTLY DRAWN ON FOREIGN RESERVES TO MEET BUDGETED EXPENDITURES AS WELL AS REDUCING BY FIAT DOMESTIC PROJECT EXPENDITURES BY THIRTY PERCENT. THE SAG APPEARS RELUCTANT TO CONTINUE SPENDING OUR OF RESERVES. WITH THE PRESENT WORLD OIL SURPLUS, THE ALTERNATIVE OF INCREASING OIL SALES TO MAKE UP THIS BUDGTARY SHORTFALL COULD ONLY BE ACCOMPLISHED AT THE EXPENSE OF OTHER OPEC MEMBERS. HENCE A PRICE INCREASE ON PRESENT VOLUME LEVELS APPEARS TO BE PREFERABLE.

7. THERE ARE ALSO POLITTICALLY VALID REASONS FOR THE U.S. TO COUNSEL PRICE MODERATION. RESPONSES FROM OTHER POSTS TO REFTEL INDICATE THAT WE RUN THE RISK OF ISOLATING OURSELVES FROM OUR OECD PARTNERS BY RESOLUTELYSINSISTING ON A PRICE FREEZE. FURTHERMORE, IF THE SAUDIS FEEL THAT THE UNITED STATES IS BEING UNREALISTIC ON THE PRICE ISSUE AND UNRESPONSIVE TO THEIR CONCERN FOR OPEC UNITY, OUR ABILITY TO CONDUCT A MEANINGFUL DIALOGUE ON A WIDE RANGE OF KEY ISSUES RANGING FROM MIDDLE EAST PEACE NEGOTIATIONS TO ENCOURAGEMENT OF EXPANSION OF LONG-RANGE CRUDE OIL PRODUCTIVE CAPACITY IS LIKELY TO BE WEAKENED.D

8. FINALLY, WE SHARE KUWAIT'S CONCERN THAT OPECT MIGHT OET FOR A SYSTEM OF SMALLER PERIODIC PRICE INCREASES IN THE FUTURE . YAMANI HAS ALREADY ALLUDED TO THIS POSSIBILITY, AND IF THE SAUDIS "HOLD THE LINE" ONCE MORE AT OUR REQUEST, THE QUID PRO QUO DEMANDED. BY THE OTHER OPEC MEMBERS MAY BE JUST SUCH A SYSTEM. THIS,

WHETHER TIED TO SOME INDEX OF INFLATIONARY TRENDS, OR SIMPLY A FIXED PERCENTAGE INCREASE ON A QUARTERLY OR SEMI-ANNUAL BASIS WOULD BUILD ANOTHER RATCHET EFFECT INTO THE WORLD ECONOMIC SYSTEM.
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FOR AMBASSADOR SULLIVAN FROM SECRETARY BLUMENTHAL

EO. 11652: GDS
TAGS: OVIP (BLUMENTHAL W MICHAEL)
SUBJ: SECRETARY BLUMENTHAL'S VISIT

REF: A) TEHRAN 11292 B) TEHRAN 11223

1. WHAT IS YOUR CURRENT VIEW TO MY BRINGING ENTIRE DELEGATION INCLUDING SECRET SERVICE WITH ME TO TEHRAN IN LIGHT OF YOUR ASSESSMENT OF CURRENT SITUATION? IF YOU BELIEVE A SMALLER DELEGATION IS PREFERABLE, I WOULD BRING THESFOLLOWING PERSONS: ASSISTANT SEKJETARY C FRED BERGSTEN, MY EXECUTIVE ASSISTANT RICHARD FISHER, PLUS THE CODEL (SEN LUGAR, CONGRESSMEN CAVANAUGH, HYDE, SSTANTON).

2. TRAVELING PRESS MAY ELECT TO HAVE ONE REPRESENTATIVE FROM AMONG THEM ACCOMPANY ME (NAME TO BE PROVIDED). WOULD EMBASSY BE ABLE TO ASSIST PRESS PERSON? TRAVELING PRESS PERSON WOULD NOT REPEAT NOT ACCOMPANY ME TO MEETINGS.D

3. ONCE I HAVE YOUR RESPONSE, WE WILL PROVIDE ASAP NEW ETA. ANTICIPATE APPOINTMENT TIMES WILL BE AFFECTED.

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8 Nov 78

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ACTION

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VV ESA346RAA796
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FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 4488
INFO RUQMDH/AMCONSUL DHAHRAN 1758
RUQMYA/USLO RIYADH 2476
RUQMHR/AMEMBASSY TEHRAN 2644
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(U- ENTIRE TEXT)

E.O. 12065: N/A
TAGS: SOPN, SOCI, SA
SUBJ: SAUDI SUPPORT FOR THE SHAH

1. AL-JAZIRA DAILY OF RIYADH FRON-PAGE ON SAT. JAN6, 1979, THICKER THAN USUAL HEADING TITLED "THE KINGDOM ANNOUNCES ITS SUPPORT FOR THE REGIME OF THE SHAH OF IRAN."

2. AL- JAZIRA CLAIMS THAT IT HAD, FOR THE SECOND TIME IN LESS THAN A WEEK, ACQUIRED AN EXCLUSIVE INTERVIEW WITH THE CROWN PRINCE EMBODYING AN IMPORTANT POLITICAL STATEMENT.

3. THE EXCLUSIVE INTERVIEW WITH THE CROWN PRINCE ELICITS THE FOLLOWING RESPONSES TO QUESTIONS POSED BY THE NEWSPAPER CORRESPONDENT:
A. "WE SUPPORT EVERY REGIME THAT ENJOYS LEGITIMACY IN ITS COUNTRY AND THE REGIME OF THE SHSH RESTS ON SUCH LEGITIMACY."
B. " THE BLODDY EVENTS IN IRAN SERVE NO INTEREST EXCEPT THAT OF THE ENEMY. AND WE HOPE THAT THE IRANIANS WOULD PUT AN END TO THOSE EVENTS BY THEMSELVES."
C. THE CONTINUATION OF WHAT IS HAPPENING IN IRAN WOULD THREATEN THE FUTURE OF POLITICAL STABILITY IN BOTH THE GULF AND THE MIDDLE EAST REGIONS."
4. THE CROWN PRINCE BY WAY OF ELABORATION MADE THE FOLLOWING ADDITIONAL POINT: " THE PRESENT SITUATION IN IRAN DOES NOT SERVE THE INTERESTS OF THE IRANIANS THEMSELVES NOR INDEED THE INTERESTS OF ISLAM OF THE MUSLIMS." BASING OURSELVES ON THE FACT THAT THE SHSH, AS WE SAID, ENJOYS THE LEGITIMATE STATUS, THERE IS NO DOUBT THAT WE SUPPORT HIS STATUS AND HIS PRESENCE."

UNCLASSIFIED

5. IN A FRONT PAGE EDITORIAL OF THE SAME DAY, AL- JAZIRA COMMENTED ON CROWN PRINCE FAHD'S CALITY AND PRECISION DISCRENIBLE IN HIS EXCLUSIVE STATEMENTS MENTIONED ABOVE. THE PAPER EMPHASIZED THE KINGDOM'S CONSTANT POLICY OF DISTINGUISHING BETWEEN WHAT IS ESSENTIALLY AN INTERNAL MATTER FOR ANY COUNTRY AND WHAT GOES BEYOND THE BORDERS OF THEIR COUNTRY. THE NEWSPAPER EMPHASIZED THE KINGDOM'S CONSTANT CARE TO MAINTAIN IN EVERY CIRCUMSTANCES GOOD RELATIONS NOT ONLY WITH REGIMES THAT REST ON LEGITIMACY BUT ALSO WITH THE PEOPLES OF THOSE REGIMES.

6. AL-JAZIRA MAINTAINED THAT BASING HIMSELF ON THE KINGDOM'S BELIEF THAT GROWTH AND DEVELOPMENT WOULD NOT COME ABOUT NOR BE THE LOT OF ANY PEOPLE EXCEPT IN CIRCUMSTANCES OF SECURITY, PEACE AND STABILITY, CROWN PRINCE FAHD APPEALED TO THE IRANIANS TO DEAL WITH THE SITUATION THEMSELVES AND DO AWAY WITH THE DIFFERENCE WHICH HAVE LED UNFORTUNATELY TO SUFFERING AND BLOODSHED FELT BY EVERY IRANIAN.

7. AL-JAZIRA EMPHASIZED THAT THE FORCE OF ARMS IS NOT ALWYS. NOR INDEED SHOULD IT BE AT ANY TIME, THE METHOD FOR PEOPLES AND LEADERS TO SOLVE THEIR INTERNAL PROBLEMS. THE NEWSPAPER SINGLED OUT AS AN EXAMPLE PAR EXCELLANCE THE SAD EXPERIENCE OF LEBANON WHERE TENS OF THOUSAND OF LEBANESE WERE KILLED AND HUNDREDS OF THOUSANDS WERE WOUNDED OR DISPERSED, NOT TO SPEAK OF THE RUIN, DESTRUCTION, AND ECONOMIC COLLAPSE WITH WHICH THE LEBANESE PEOPLE ALONE HAVE BEEN BURNI.

8. IN CONCLUSION, AL-JAZIRA OPINES THAT IN VIEW OF IRAN'S DISTINCTIVE POSITION REGIONALLY AND INTERNATIONALLY FOR THE PURPOSE OF POLITICAL, ECONOMIC OR MILITARY STARTEGY PLANNING, PEACE AND SECURITY IN IRAN ARE VITAL FOR THE SECURITY AND TRANQUILITY OF THE GULF AND MIDDLE EAST AREAS. " NO ONE SAVE THE IRANIAN PEOPLE, THEIR EMPEROR AND THEIR GOVERNMENT CAN DO ANYTHING TO SECURE SECURITY PEACE AND STABILITY FOR IRAN AND ITS PEOPLE AND CONSEQUENTLY FOR THE ASPECTS OF THE SITUATION IN THE GULF AND THE WHOLE MIDDLE EAST. "

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RUQMAM/AMEMBASSY MANAMA IMMEDIATE 3003
RUQMOD/AMEMBASSY DOHA IMMEDIATE 7958
RUQMBI/AMEMBASSY ABU DHABI IMMEDIATE 2340
RUQMMT/AMEMBASSY MUSCAT IMMEDIATE 6866
RUQMNS/AMEMBASSY SANA IMMEDIATE 1254
RUQMHR/AMEMBASSY TEHRAN IMMEDIATE 9383
RUSBQD/AMEMBASSY ISLAMABAD IMMEDIATE 3118
RUQMBE/AMEMBASSY BEIRUT IMMEDIATE 6310
RUEHAM/AMEMBASSY AMMAN IMMEDIATE 6947
RUEHDM/AMEMBASSY DAMASCUS IMMEDIATE 2638
RUEHCR/USINT BAGHDAD IMMEDIATE 9519
RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 9711
RUEHEG/AMEMBASSY CAIRO IMMEDIATE 3978
RUFHMD/AMEMBASSY MADRID IMMEDIATE 6290
INFO RUQMAT/AMEMBASSY ATHENS IMMEDIATE 0334
RUQMGU/AMEMBASSY ANKARA IMMEDIATE 7401
RUDTC/AMEMBASSY LONDON IMMEDIATE 6100
RUFNPS/AMEMBASSY PARIS IMMEDIATE 5181
RUFHOL/AMEMBASSY BONN IMMEDIATE 2033
RUEHMO/AMEMBASSY MOSCOW IMMEDIATE 5280
RUQMRA/AMEMBASSY JIDDA IMMEDIATE 6971
RUFHNA/USMISSION USNATO IMMEDIATE 2004
RUEKJCS/SECDEF WASHDC IMMEDIATE 2666
RUEKJCS/JCS WASHDC IMMEDIATE 2320
RUCNAAA/USCINCEUR VAIHINGEN GE IMMEDIATE
RUEOBSC/USMTM RIYADH IMMEDIATE
RUJOBSA/CHUSMTM DHAHRAN IMMEDIATE
RUCIMAA/CINCMAC SCOTT AFB ILL IMMEDIATE
RUCJAAA/USCINCRED MACDILL AFB FL IMMEDIATE
RUWTEKA/CINCSAC OFFUTT AFB NE IMMEDIATE
RUQMDH/AMCONSUL DHAHRAN IMMEDIATE 2196
RUQMYA/USLO RIYADH IMMEDIATE 1528
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ACTION
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ABU DHABI PASS DUBAI

E.O. 112065 AGDS (DECLASSIFY JANUARY 11, 1979)

TAGS: MORG, SA , US

SUBJECT: F-15 VISIT TO SAUDI ARABIA

REF: STATE 005400 (NOTAL)

1. YOU SHOULD BE AWARE THAT AT 0800 WASHINGTON TIME, JANUARY 10, WE WILL POST FOLLWING JOINT ANNOUNCEMENT BY THE UNITED STATES AND THE GOVERNEMT OF SAUDI ARABIA OF THE VISIT OF 12 F-15 AIRCRAFT TO THE KINGDOM MID-JANUARY. ADDRESSEES MAY INFORM HOST GOVERNMENTS AT THEIR DISCRETION.

2. TEXT OF JOINT STATEMENT:

BEGIN QUOTE: AT THE INVITAION OF THE GOVERNMENT OF SAUDI ARABIA, THE UNITED STATES WILL DEPLOY A SQUADRON OF F-15 AIRCRAFT TO SAUDI ARABIA FOR A SHORT PERIOD OF TIME IN MID-JANUARY. THE F-15'S WILL DEPLOY TO RIYADH, THE CAPITAL OF SAUDI ARABIA AND WILL VISIT OTHER APPROPRIATE ROYAL SAUDI AIR FORCE BASES DURING THEIR STAY IN SAUDI ARABIA. THE PURPOSE OF THE DEPLIYMENT WILL BE FOR DEMONSTRATION OF THE F-15 AIRCRAFT. THE VISIT IS A DEMONSTRATION OF THE CONTINUING CLOSE RELATIONSHIP BETWEEN SAUDI ARABIA AND THE UNITED STATES AND OF OUR INTEREST IN THE SECURITY OF THE KINGDOM. END QUOTE.

3. CONTINGENCY PRESS GUIDANCE WILL BE PROVIDED SEPTEL. VANCE

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#0433

S E C R E T

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SECRET

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FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3675
INFO RUQMRA/AMEMBASSY JIDDA 3008
RUQMHR/AMEMBASSY TEHRAN 3420
RUFNPS/AMEMBASSY PARIS 4659
RUFHBS/AMEMBASSY BRUSSELS 6369
RUDKGPQ/AMEMBASSY THE HAGUE 9887
BT
S E C R E T LONDON 00904

DEPT ALSO PASS DOE

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USOECD

ACTION: ECON 5
INFO: AMB DCM POL PM OR ICA ADM CRU 10

EO 12065: XDS-4, 1/16/99 (MORRIS, ROBERT J) OR-E
TAGS: ENRG, SA, UK
SUBJ: SAUDI ARABIAN OIL PRODUCTION

1. (S - ENTIRE TEXT) SENIOR OFFICIALS OF THE SHELL GROUP (PROTECT SOURCE AND INFORMATION) WERE IN SAUDI ARABIA THE PAST WEEKEND TO SECURE AN ADDITIONAL ALLOCATION OF CRUDE OIL. AUTHORITATIVE SOURCES IN SHELL REPORT THAT PETROLEUM MINISTER YAMANI RESPONDED THAT TOTAL SAUDI OIL PRODUCTION FOR THE FIRST QUARTER OF 1979 WOULD BE HELD TO A DAILY AVERAGE MAXIMUM OF 8.5 MILLION B/D. SHELL NOTES THE CONTRAST BETWEEN THIS STATEMENT AND REPORTS CURRENT IN PIW AND ELSEWHERE THAT SAUDI PRODUCTION IS LIKELY TO CONTINUE AT OVER 10 MILLION B/D AS LONG AS IRANIAN PRODUCTION IS DOWN.

2. PRESUMABLY THE SAUDIS WISH TO RESERVE THEIR OPTIONS AS LONG AS POSSIBLE AND IN ANY EVENT WOULD NOT WISH TO BE CASUAL ABOUT REVEALING THEIR INTENTIONS. POSSIBLY TOO THE SAUDIS MAY WISH TO FAVOR THE ARAMCO PARTNERS WITH ANY ADDED SUPPLIES. BUT IF YAMANI'S STATEMENT TO SHELL REFLECTS A FIRM INTENTION, THEN SUBSTANTIAL PRODUCTION CUTS WILL SOON BE FORTHCOMING.
BREWSTER
BT
0904

SECRET

NNNNVV ESB021BRA357
PP RUQMHR
DE RUDTC #1401 0241315
ZNY SSSSS ZZH
P R 241313Z JAN 79
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC PRIORITY 3934
INFO RUQMRA/AMEMBASSY JIDDA 3024
RUQMHR/AMEMBASSY TEHRAN 3436
RUQMKW/AMEMBASSY KUWAIT 1771
RUFHBS/AMEMBASSY BRUSSELS 6416
RUFHPS/AMEMBASSY PARIS 4746
RUEKHO/AMEMBASSY TOKYO 6894
RUQMDH/AMCONSUL DHAHRAN 0882
BT
S E C R E T LONDON 01401

USEC

USOPCD

E.O. 12065: XDS-4 1/24/99 (STREATOR, E.J.JR.) OR-E
TAGS: ENRG, SA
SUBJ: SAUDI ARABIAN OIL PRODUCTION

RE: A. STATE 9771 B. LONDON 904

1. (S -ENTIRE TEXT) A SENIOR LONDON-BASED OFFICIAL IN ONE OF THE ARAMCO COMPANIES (PROTECT SOURCE AND INFORMATION) HAS PRIVATELY EXPRESSED AMAZEMENT THAT SAUDI ARABIA IS MAKING ALL OF ITS CURRENT EXCESS CRUDE OIL AVAILABLE TO ARAMCO. WHILE DELIGHTED AT THIS TURN OF EVENTS, THE OFFICIAL SAID HE COULD NOT UNDERSTAND THE SAUDI MOTIVATION. HE QUESTIONED THE SAUDIS' JUDGEMENT IN TURNING THEIR BACKS ON OTHER CUSTOMERS IN SUCH TIMES OF NEED.

2. IN CONTRAST TO THE SHELL IMPRESSION RELATED IN REF (A), THE OFFICIAL , RECENTLY RETURNED FROM SAUDI ARABIA, DOUBTED WHETHER THE SAUDIS WOULD BE RIGHT ON A QUARTERLY BASIS ABOUT THE 8.5 MILLION B/D ANNUAL AVERAGE OUTPUT TARGET, AT LEAST AT THIS STAGE. BUT HE DID REITERATE

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:OMETHING WHICH NO DOUBT EMBASSY JIDDA AND WASHINGTON AGENCIES FEAR FREQUENTLY: THE SAUDIS ARE MOST UNCOMFOR-TAPLE ABOUT PRODUCING AT LEVELS APPROACHING AND OFTEN EXCEEDING 10 MILLION B/D.

3. IT WOULD APPEAR THAT SAUDI ARABIA'S DECISION TO MAKE :EVERAL MILLION B/D OF EXTRA CRUDE OIL AVAILABLE TO ARAMCO HAS SOMETHING TO DO WITH SOFTENING THE IMPACT OF THE IRANIAN SHORTFALL ON THE UNITED STATES. THUS, EVEN THE SUBTLEST SAUDI DISENCHANTMENT WITH THE UNITED STATES WOULD SEEM TO HAVE A POTENTIAL FOR MARKED CHANGES IN U.S. OIL SUPPLY.

BREWSTER

BT

#1401

S E C R E T

Incom

POL
CHAN'E
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3 Mar 79

NNNNVV ESA163BRA654
RR RUQMHR
DE RUDTC #8778 1231044
ZNY CCCCC ZZH
R 031042Z MAY 79
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC 7508
INFO RUEHAM/AMEMBASSY AMMAN 1983
RUEHAD/USINT BAGHDAD 0220
RUEHEG/AMEMBASSY CAIRO 2082
RUEHDM/AMEMBASSY DAMASCUS 0691
RUSBLK/AMEMBASSY KABUL 0748
RUSBQD/AMEMBASSY ISLAMABAD 9081
RUQMRA/AMEMBASSY JIDDA 3183
RUDKBT/AMEMBASSY RABAT 0839
RUQMHR/AMEMBASSY TEHRAN 3502
RUEHTV/AMEMBASSY TEL AVIV 2726
BT
C O N F I D E N T I A L LONDON 08778

E.O. 12065: RDS-4 5/2/99 (BINNS, J.R.) OR-P
TAGS: PEPR SA UK
SUBJECT: ACTIVITIES OF SALIM AZZAM

1. (C - ENTIRE TEXT) SALIM AZZAM, SECRETARY GENERAL OF THE ISLAMIC COUNCIL OF EUROPE, HAS BEGUN TO BE VERY BUSY IN LONDON. HE HAS HAILED THE LIBERATION OF IRAN, EXCORIATED THE EGYPT/ISRAELI TREATY, CALLED FOR THE OVERTHROW OF PRESIDENT SADAT, WORRIED TO THE PRESS ABOUT COMMUNIST PERSECUTION OF THE AFGHANS, AND, ON APRIL 26, ANNOUNCED HE HAD SET UP A COMMISSION TO IDENTIFY AND SOLVE THE PROBLEMS OF 225 MILLION MOSLEMS LIVING IN MINORITY COMMUNITIES. NOW, WE ARE TOLD BY OUR EGYPTIAN COLLEAGUES, HE IS ORGANIZING MEETINGS IN LONDON ON MAY 23 AND 27 TO DISCUSS "LIBERATION OF THE ISLAMIC WORLD." SENIOR RELIGIOUS FIGURES FROM IRAN AND SAUDI ARABIA WILL ADDRESS THE CONFERENCES, WHICH ARE APPARENTLY DESIGNED TO EMBARRASS EGYPT YET AGAIN IN THE WAKE OF THE ISLAMIC CONFERENCE IN FEZ.

2. AZZAM CONTINUES TO BE ACCREDITED TO HMG AS A MINISTER OF THE SAUDI EMBASSY (FOR PUBLIC AFFAIRS). HE IS, HOWEVER, AN EGYPTIAN BY BIRTH AND IS RELATED TO AZZAM PASHA. WE ARE TOLD HIS RELIGIOUS VIEWS ARE REMARKEDLY CONSERVATIVE (HE MAY BE AN IKHWAN MEMBER). HIS SISTER MARRIED INTO THE SAUDI ROYAL FAMILY.

3. SINCE THE ACTIVITIES LISTED ABOVE SEEMED UNUSUAL TO SAY THE LEAST, FOR A SAUDI DIPLOMAT, EMBOFF RAISED AZZAM'S DUAL MANDATE WITH THE FCO IN AN INFORMAL CHAT. THE BRITISH, EMBOFF WAS TOLD, HAD COME TO THE SAME CONCLUSION. SINCE THE PRESENT SAUDI CHARGE IS NOT A FORCEFUL CHARACTER, THE FCO HAS DECIDED TO APPROACH THE SAUDIS IN JIDDA. IT MAY BE, AS THE FCO MIDDLE EAST DEPARTMENT SUSPECTS, THAT THE SAG IS SIMPLY NOT AWARE OF THE EXTENT OF THEIR MINISTER'S EFFORTS -- HIS WARM WELCOME FOR THE NEW "IRANIAN REPUBLIC" SEEMS UNLIKELY TO HAVE BEEN INITIATED IN RIYADH.

BREWSTER
BT
#8778

Incoming

MMMVV ESA881BRA855
PP RUQMHR
DE RUEHC #6178 1281144
ZNY CCCCC ZZH
P 080414Z MAY 79
FM SECSTATE WASHDC 8 May 79 12 15z
INFO ALL NEAR EASTERN AND SOUTH ASIAN DIPLOMATIC POSTS PRIORITY
BT
C O N F I D E N T I A L STATE 116178

POL
CHG
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RF
chr

FOLLOWING REPEAT JIDDA 3438 ACTION SECSTATE INFO ANKARA CONAKRY DAKAR JAKARTA KUALA LUMPUR MOGADISCIO MAY 2

QUOTE C O N F I D E N T I A L JIDDA 3438

DEPT PASS ALL NEAR EASTERN & SOUTH ASIAN POSTS

E.O. 12065: XDS-1 5/2/89 (DANIELS M. GORDON) OR-M
TAGS: PEPR, PORG, SA, EG
SUBJECT: (U) SAUDI ARABIA AND THE ISLAMIC CONFERENCE

REF: JIDDA 3297

1. (C - ENTIRE TEXT).

2. DURING MAY 1 MEETING, EMBASSY POLITICAL OFFICER DISCUSSED FEZ ISLAMIC CONFERENCE WITH MFA EASTERN AFFAIRS DIRECTOR AHMAD SIRAJ. SIRAJ SAID THAT SAUDI ARABIA WAS SENDING A STRONG DELEGATION COMPOSED OF FIVE FOREIGN MINISTRY OFFICIALS: FOREIGN MINISTER PRINCE SAUD, DEPUTY FOREIGN MINISTER ABD AL-RAHMAN MANSURI, DIRECTOR OF INTERNATIONAL ORGANIZATION AFFAIRS, SAMIR SHIHABI, DIRECTOR OF INFORMATION AFFAIRS ABBAS GHAZZAWI , AND DIRECTOR IF ISLAMIC AFFAIRS SHAYKH AHMAD MUBARAK. BECASUE OF SHORTAGES IN SPACE IN FEZ, MOROCCANS HAVE ASKED THAT ALL DELEGATIIONS BE LIMITED TO FIVE.

3. ON THE QUESTION OF EGYPTIANMEMBERSHIP, SIRAJ SAID THAT SAUDI ARABIA WAS LEGALLY BOUND TO OBSERVE THE DECISIIONS OF THE BAGHDAD CONFERENCE. HE SAID THAT IF EXPLICIT QUESTION OF EXPULSION OF EGYPT EVER COMES TO VOTE, SAUDI ARABIA CANNOT BE EXPECTED TO BREAK WITH ARAB CONSENSUS.

4. SIRAJ ADDED THAT HE FELT BEST WAY TO PREVENT THE EXPULSION OF EGYPT WAS TO HAVE THE NON-ARAB STATES RESIST SUCH A MEASURE ON THE BASIS OF DEFENSE OF THE ISLAMIC CONFERENCE CHARTER. (COMMENT: THAT CHARTER HAS NO PROVISION FOR EXPLUSION OF ANY MUSLIM STATE FROM THE ISLAMIC CONFERECE AND SAYS THAT EVERY MUSLIM STATE IS ELIGIBLE TO JOIN THE CONFERENCE. ON THIS BASIS, IT CAN BE CLAIMED THAT EGYPT CANNOT BE EXPELLED AS LONG AS IT REMAINS A MUSLIM STATE.

5. SIRAJ SAID THAT NO ARAB STATE CAN BE EXPECTED TO RAISE SUCH AN ISSUE, BUT THAT IF ENOUGH NON-ARAB STATES RAISE SERIOUS OBJECTIONS BASED ON DEFENSE OF THE ISLAMIC CONFERENCE CHARTER, SAUDI ARABIA COULD HELP PREVENT THE EXPLUSION ISSUE FROM COMING TO A VOTE ON THE GROUNDS THAT SUCH A VOTE WOULD DAMAGE ISLAMIC SOLIDARITY.

6. POLITICAL OFFICER POINTED OUT THAT NON-ARAB STATES WERE UNLIKELY TO UNDERTAKE SUCH ASTEP ON THEIR OWN WITHOUT ARAB SUPPORT. AT PREVIOUS ISLAMIC FOREIGN MINISTERS CONFERENCES THE NON-ARAB STATES HAVE BEEN UNWILLING TO GET INVOLVED IN ARAB QUESTIONS AND HAVE GENERALLY GONE ALONG WITH RESOLUTIONS, NO MATTER HOW EXTREME, WHICH THE ARAB STATES PROPOSED. SIRAJ ADMITTED THE EXISTENCE OF THIS PROBLEM, BUT SAID THAT IF SUCH STATES AS PAKISTAN, INDONESIA, MALAYSIA, SENEGAL, OR GUINEA WOULD RAISE ISSUES OF CHARTER AND PROCEDURE, A COMPROMISE MIGHT BE POSSIBLE. HE NOTED THAT THERE WASNO CHANCE OF IRAN'S BEING HELPFUL.

7. COMMENT: AT 1975 DAKRA ISLAMIC FOREIGN MINISTERS CONFERENCE NON-ARAB NATIONS SAT ON THEIR HAND WHILE PLO AND ITS ALLIES RAN THROUGH THE MOST EXTREME RESOLUTIONS ON MIDDLE EAST QUESTIONS AT THIAT CONFERENCE ONLY EFFECTIVE ACTION BY MODERATES OCCURRED IN HORN OF ARFICA DEBATE, WHEN SOMALIA, SAUDI ARABIA, SUDAN, AND IRAN FELT THEIR VITAL INTERESTS WERE AFFECTED. ALTHOUGH IT MAY BE WORTH A TRY, THE ISSUE OF DEFENSE OF THE ISLAMIC CONFERENCE CAHRTER WILL PROBABLY NOT HAVE SUFFICIENT FORCE TO CREATE EFFECTIVE RESISTENCE TO ATTEMPTS TO EXPEL EGYPT FROM THE CONFERENCE. IF THE VITAL INTERESTS OF THE NON-ARAB NATIONS ARE NOT AFFECTED IT IS UNLIKELY THAT THEY WILL GET INVOLVED IN WHAT THEY CONSIDER AN INTRA-ARAB DISPUTE.

DANIELS.

UNQUOTE VANCE
BT
#6178

INFO

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DEPARTMENT OF STATE

# AIRGRAM

P 210771-0910

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FILE DESIGNATION

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A-32
NO.

TO : Department of State

INFO: Embassies Ankara, Jakarta, Kuala Lumpur, Lagos, USLO Riyadh, Amconsul Dhahran

E.O. 12605: GDS 5/15/85 (Limbert, John) OR-P

FROM : Amembassy Jidda

DATE: MAY 21, 1979

SUBJECT : Saudi Arabia: Forces of Change

REF : DEPT PASS ALL NEAR EAST & SOUTH ASIAN POSTS Jidda 3379 (NOTAL)

SUMMARY. Recent government measures taken to enforce Saudi Islamic practices have not addressed basic social issues in the Kingdom. Actions against the most obvious manifestations of westernization may not be sufficient to resist strong forces of social change. These forces include such phenomena as continued foreign education for large numbers of Saudis, the possible introduction of compulsory military service, corruption in high levels of the society and the continuing need for a large foreign presence to operate and maintain an increasingly sophisticated economy. Although the Saudi Government may continue taking such superficial measures as banning Muslim children from international schools and banning mixed bathing in Jidda hotel swimming pools, the government may not be able to resist or control the deeper currents bringing social changes to the Kingdom. End summary.

INTRODUCTION

In reftel we argued that the phrase "Islamic revival" uld not apply to Saudi Arabia where Islam is in no need of revival. This message expands that argument to examine some basic forces in Saudi society which are bringing social changes to the Kingdom. The recent actions of the government in enforcing public observance of Saudi Islamic custom appear to us to address only the most superficial manifestations of social change without addressing more basic issues and

FORM DS-322

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| POL:JLimbert:jy | | 5/8/79 | 280 | ADCM:RWChase |

Clearances: POL:HEBovis (draft) POL:JHalpeli (draft)
POL/MIL:MCHambley (draft) DAO:RLawrence (draft)

O - 10814

problems created by the rapid economic development of the Kingdom.

Recent measures intended to preserve the Islamic traditions o Saudi Arabia are mostly ineffective attempts to stop a strong and deeper current in the opposite direction. The Saudi gov- ernment has no coherent policy for dealing with perceived threats to traditional society and remains divided over its o social priorities. The government has responded to these thr by a series of temporizing measures which will not deal with the forces for change but which will, it hopes, placate the religious conservatives.

In spite of the government's attempts to impose a Wahhabi ver sion of Islamic orthopraxy on the Kingdom, there are basic forces at work for social change--forces which the government has been unable to resist.

FOREIGN STUDY

Although the immediate social effects of foreign study are debatable, there is little doubt that prolonged exposure to Western patterns of thought and behavior by large numbers of young Saudis will influence their attitudes toward their soc- iety. It is not necessary to be a radical to see room for pr gress and reform in the Kingdom. Although the government is taking steps to restrict foreign study to graduate students and specialized trainees and to keep undergraduates in the domestic universities, there is no evidence of an overall decrease in the numbers of Saudis studying abroad. Although encouraging students to take their families abroad may help young men resist the grosser temptations of 42nd Street, thes students will still be exposed to influence of the less obtru sive Western ways.

There are presently about 10,000 Saudi students in the United States under Ministry of Higher Education sponsorship. In addition there are another estimated 3,000-5,000 students under the sponsorship of such organizations as Saudi Arabian Airlines, the Ministry of Defense, and the Ministry of Interi Although these numbers are not large in relation to the Saudi population, on completion of their studies members of this group are likely to assume positions of considerable influenc in the society. As this group grows in size and influence, it could become a force for change, if not social or politica then at least in the fields of operation and management.

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CONSCRIPTION

Although there is nothing strictly un-Islamic in introducing a military conscription system to Saudi Arabia, the military authorities involved have had to defend themselves against charges of theological innovation (ibtida'), a heresy in orthodox Islam (cf. 78 Jidda A-77). Conscription could mean a social change of considerable magnitude when young Saudis are expected for the first time to render some service in return for government generosity. Although many Saudis welcome conscription as a method of instilling a sense of discipline, duty, and purpose in the young, these sentiments may not be shared by the young people themselves. Although details of the plan have not been released, there could be problems if conscription is seen as favoring one social group at the expense of another.

CORRUPTION

The recent manifestations of concern for public morality, with tougher sentences, including flogging, for morals offenses, have not dealt with the more basic social problem of corruption. Although news of misbehavior of princes and high officials is carefully kept out of the local press, the increasing availability of news from foreign sources has overcome all attempts at censorship. Holes in foreign newspapers arouse curiosity, and intact copies of such papers smuggled from abroad are read eagerly.

In an earlier study (Jidda A-4) we noted that the Saudi royal family was not generally perceived as looting the resources of the country for personal profit at the expense of the ordinary citizen. However, corruption is still a problem with serious political and social consequences. Although the government has announced anti-corruption measures, it remains to be seen how effective these will be. If a perception of official corruption and indifference were to gain currency among large segments of the population, the basis of religious legitimacy upon which the house of Saud rests could be undermined. Although the Saud family has shown an ability to take strong measures when its power is threated, it is not certain that the family possesses enough internal discipline to control the acquisitiveness of some of its members.

It appears that the government is still concentrating its efforts on superficial questions of morality while ignoring basic issues. The eventual effects of uncontrolled economic corruption on Saudi society would be much more drastic than the effects of allowing, for example, foreign Muslim children to attend international schools. Saudi Arabia's social stability is based not on any police apparatus or on a population terrorized into indifference, but on a high degree of consensus

on the nature of the state, on the role of religion, and on the value of preserving Islamic traditions. Corruption and indifference among those leading the society could weaken that consensus and call into question the legitimacy of the position of the ruling family and its allies.

FOREIGN PRESENCE

The Saudis have shown a remarkable ability to resist the adoption of foreign ways despite the large foreign presence in the Kingdom. Possible explanations for this resistance include the physical and social isolation of the foreigners and the Saudi's self confidence that protects him from imitation of the West in the manner of the Iranian gharbzade (West-infatuated). Nevertheless, the Saudis will soon face some critical questions concerning resident foreigners. The nature of the foreign presence will change as society's economic activities evolve from building infrastructure projects to operation and maintenance of industrial, petrochemical, social welfare and communications facilities. Most observers believe that in the next 10-15 years the Saudi economy will become more, not less dependent on foreigners. These foreigners will no longer be casual construction laborers, but will be long-term residents of the Kingdom working in strategic sectors of the economy.

None of the recent "Islamic" measures noted reftel have had any effect on the basic question about what kind of society Saudi Arabia should be in the next 10 to 20 years. If no rational policy for dealing with the foreign presence is adopted, Saudi Arabia may find itself permanently dependent on a group of highly-paid foreign mercenaries to operate its essential services. Some thoughtful Saudis are asking whether they (the Saudis) should become a permanently unproductive class whose main function will be signing checks for foreigners. However, the government's only response so far has been limited to steps such as removing insidious Western influences as "Six Million Dollar Man" from the local television.

CONCLUSION

The Saudi Arabian Government feels that it must maintain a delicate balance between continuing its economic modernization program and protecting the traditional social structure of the Kingdom. It appears that in order to achieve the latter goal the government has taken a series of cosmetic actions aimed at resisting only the most obvious and superficial signs of westernization. The Ministry of Interior, the government body most directly responsible for defending public morality, is involved in only the most peripheral way with the basic issues shaping Saudi society. Unless there

is some radical change of economic and social policy in the next few years, the currents of social change will continue to gather strength. If the government is going to resist or control these currents, it will need to do much more than install darkened glass on girls' school bus windows.

DANIELS

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RR RUQMHR
DE RUEHFO #0347/01 1290209
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TO RUEHJM/AMCONSUL JERUSALEM
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RUQMIF/AMEMBASSY AMMAN
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RUQMHR/AMEMBASSY TEHRAN
RUQMAD/USICA TEL AVIV
RUEHUS/AMEMBASSY DAMASCUS
RUQMTI/AMEMBASSY TRIPOLI
RUQMNS/AMEMBASSY SANA
RUQMBI/AMEMBASSY ABU DAHABI
RUQMOD/AMEMBASSY DOHA
RUQMMT/AMEMBASSY MUSCAT
RUQMAM/AMEMBASSY MANAMA
RUFHMR/AMEMBASSY RABAT
RUFHRS/AMEMBASSY ALGIERS
BT
UNCLAS SECTION 01 OF 02

USINFO

E0 12065 N/A

USICA FOR PAO: FROM PGM/PPN:
(FOLLOWING F'S MATERIAL NOT FOR PUBLICATION)
THE FOLLOWING REPORT BY OSWALD JOHNSTON, HEADLINED:
"U.S. RECALLS CIA OFFICER TO AVOID RIFT WITH SAUDIS, APPEARED
IN THE LOS ANGELES TIMES OF MAY 8: (BEGIN TEXT)
WASHINGTON--THE CARTER ADMINISTRATION ANXIOUS TO HEAD OFF
A DAMAGING PUBLIC DISPUTE WITH SAUDI ARABIA, HAS QUIETLY
RECALLED THE CIA STATION CHIEF ATTACHED TO THE U.S. EMBASSY IN
JIDDA, U.S. OFFICIALS SAID MONDAY.
THE CIA AGENT, WHOSE IDENTITY OFFICIALS REFUSED TO DIVULGE

HAD BEEN MARKED FOR NORMAL EXPULSION BY THE SAUDI LEADERSHIP, WHICH HAS BEEN ANGERED FOR MORE THAN A MONTH BY REPORTS IN THE U.S. PRESS OF SPLITS IN THE ARAB NATION'S RULING FAMILY.

PARTICULARLY DAMAGING TO U.S.-SAUDI RELATIONS WAS A NEWS REPORT LAST MONTH IN THE WASHINGTON POST QUOTING UNNAMED U.S. OFFICIALS AS EXPRESSING FEAR THAT CROWN PRINCE FAHD, VIEWED BY SOME IN THE CARTER ADMINISTRATION AS THE PRO-AMERICAN "STRONG MAN " OFTHE SAUDI MONARCHY MAY BE LOSING HIS GRIP.

THE REPORT, DISAVOWED BY OTHER AMERICAN OFFICIALS FAMILIAR WITH THENATURE OF SAUDI CONSENSUS POLITICS, IS KNOWN TO HAVE STRUCK A SENSITIVE NERVE IN THE SAUDI LEADERSHIP. THIS EPISODE COMES AT A TIME OF GROWING STRAIN BETWEEN THE UNITED STATES AND SAUDI ARABIA, THE CHIEF U.S. OIL SUPPLIER, OVER THE AMERICAN ROLE IN ARRANGING THE PEACE AGREEMENT BETWEEN EGYPT AND ISRAEL.

MOST MIDDLE EAST SPECIALISTS IN THE GOVERNMENT WARN THAT THE SAUDIS SHOULD NOT BE PRESSED INTO ACCEPTING A U.S. POLICY WITH WHICH THEY STRONGLY DISAGREE. NEVERTHELESS, THE SAUDIS HAVE INTERPRETED SOME VOICES IN THE WHITE HOUSE, THE PENTAGON AND CONGRESS AS CONSTITUTING A PRESSURE CAMPAIGN TO INDUCE THEM TO ENDORSE THE PEACE TREATY.

A NEPHEW OF PRINCE FAHD, PRINCE BANDAR BN SULTAN, WAS IN THE UNITED STATES ON OTHER BUSINESS WHEN THE REPORT ON THE U.S. FEARS OF A SAUDI SPLIT APPEARED. SO GREAT WAS SAUDI SENSITIVITY THAT BANDAR WAS INSTRUCTED TO SEEK ASSURANCE FROM ADMINISTRATION HIGHER-UPS THAT AN OFFICIALLY SANCTIONED ANTI-SAUDI CAMPAIGN WAS NOT UNDER WAY.

IN SAUDI ARABIA, MAJOR NEWSPAPERS DO NOT PUBLISH REPORTS OF SENSITIVE FOREIGN POLICY ISSUES WITHOUT OFFICIAL SANCTION. APPARENTLY, MANY OFFICIALS IN RIYADH, THE CAPITAL, HAVE DIFFICULTY BELIEVING THAT A REPORT IN A MAJOR AMERICAN NEWSPAPER COULD BE CARRIED WITHOUT THE ENDORSEMENT OF THE U.S. GOVERNMENT.

SAUDI DISPLEASURE FOCUSED ON THE CIA-STATION CHIEF, U.S. OFFICIALS SAID, BECAUSE HE WAS KNOWN TO HAVE BEEN MAKING INQUIRIES ABOUT THE EXTENT OF DISSENTION AMONG THE FOUR BROTHERS WHO DOMINATE THE RULING FAMILY: KING KHALEID AND PRINCE FAHD (BOTH OF WHOM ARE KNOWN TO BE IN BAD HEALTH), AND PRINCE

BT

#0347

ZNR UUUUU ZYN
R 090207Z MAY 79
FM USINFO WASHDC
TO RUEHJM/AMCONSUL JERUSALEM
RUQMIF/AMEMBASSY AMMAN
RUQMBE/AMEMBASSY BEIRUT
RUEHEY/AMEMBASSY CAIRO
RUQMRA/AMEMBASSY JIDDA
RUDKKR/AMEMBASSY TUNIS
RUQMKM/AMEMBASSY KHARTOUM
RUQMKW/AMEMBASSY KUWAIT
TUQMHR/AMEMBASSY THERAN
RUQMAD/USICA TEL AVIV
RUEHUS/AMEMBASSY DAMASCUS
RUQMTI/AMEMBASSY TRIPOLI
RUQMNS/AMEMBASSY SANA
RUQMBI/AMEMBASSY ABU DHABI
RUQMOD/AMEMBASSY DOHA
RUQMMT/AMEMBASSY MUSCAT
RUQMAM/AMEMBASSY MANAMA
RUFHMR/AMEMBASSY RABAT
RUFHRS/AMEMBASSY ALGIERS
BT
UNCLAS SECTION 02 OF 02

USINFO

EO 12065 N/A

ABDULLAH AND PRINCE SULTAN.

ANNOYANCE APPARENTLY WAS HEIGHTENED BY THE FACT THAT THE NEWS REPORT CONTAINED REFERENCES TO INTELLIGENCE REPORTS FROM THE CIA OPERATIVE THAT FOCUSED ON FAHD'S POOR HEALTH.

THE STATION CHIEF BECAME A TRAGET FOR RETALIATION AFTER LEAKED VERSIONS OF HIS REPORTING BECAME IDENTIFIED AS A SOURCE FOR AN ARTICLE THAT THE SAUDIS FOUND OFFENSIVE.

THE INITIAL REPORT OF THE ADMINISTRATION'S DECISION TO WITHDRAW THE CIA MAN WAS MADE PUBLIC LATE LAST WEEK BY CORD MAYER, A RETIRED CIA OFFICIAL WHO NOW WRITES A NEWSPAPER COLUMN.

ACCORDING TO MEYER'S REPORT, WHICH WAS REPEATED OVER THE WEEKEND BY A NEWSPAPER PUBLISHED IN KUWAIT, THE SAUDIS INITIALLY INTENDED TO EXPEL THE STATION CHIEF AS A PERSONA NON GRATA.

FEARING THAT THE EXPULSION WOULD LEAD TO AN EMBARRASSING PUBLIC SQUABBLE, U.S. DIPLOMATS INSTEAD NEGOTIATED A QUIET WITHDRAWAL.

ACKNOWLEDGING THE ARRANGEMENT MONDAY, ADMINISTRATION OFFICIALS ALSO CONFIRMED THAT THE CIA OPERATIVE IS NOW IN WASHINGTON ON "HOME LEAVE" AND THAT HE WILL BE REASSIGNED.

ONE IRRITANT IN THE EPISODE IS THAT FEW MIDDLE EAST SPECIALISTS IN THE ADMINISTRATION SHARE THE VIEW THAT THE SAUDI MONARCHY MAY BE RIVEN BY DISSENSION.

THE PREVAILING VIEW AMONG SPECIALISTS, RATHER, IS THAT THE FOUR BROTHERS--ALL SONS OF KING ABDUL AZIZ IBN SAUD--SHARE AUTHORITY ACCORDING TO A SYSTEM BASED PARTLY ON SENIORITY AND PARTLY ON CONSENSUS. ACCORDINGLY, IT IS BELIEVED THAT ANY VIEW THAT FAHD COULD BE TAGGED AS "WASHINGTON'S MAN IN RIYADH"IS PURE DELUSION.

NEVERTHELESS, THE SAUDI SENSITIVITY TO REPORTS OF DISSENSION IN THEIR RANKS IS ACUTE. DURING THE SAME WEEK IN WHICH THE EXPULSION DEMAND FIRST WAS LODGED AND IN WHICH PRINCE BANDAR WAS SEEKING ASSURANCES IN WASHINGTON A RARE INTERVIEW SET UP EXPRESSLY TO COUNTER THE REPORTS WAS ARRANGED BY ANOTHER OF THE FOUR BROTHERS, PRINCE ABDULLAH.

ACCORDING TO SOME ACCOUNTS, ABDULLAH, COMMANDER OF THE SAUDI NATIONAL GUARD, HAS EMERGED AS FAHD'S CHIEF RIVAL. IN AN INTERVIEW DISTRIBUTED BY THE BAHRAIN-BASED GULF NEWS AGENCY, WHICH IS CAREFULLY MONITORED IN THE WEST, ABDULLAH ASSERTED THAT THE MONARCHY IS "UNITED IN OPINION, SPIRIT, OBJECTIVE AND PERSPECTIVE.... I HAVE NO EXISTENCE EXCEPT THROUGH THAT OF MY BROTHER, HIS HIGHNESS PRINCE FAHD.

(END TEXT)

(PRECEDING FS MATERIAL NOT FOR PUBLICATION) ITEM

MT

#0347

NNNNVV ESA829RAA342
RR RUQMHR
DE RUQMRA 3696 1331200
ZNY CCCCC ZZH
R 131144Z MAY 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 5983
INFO RUQMYA/USLO RIYADH 3368
RUQMDH/AMCONSUL DHAHRAN 2418
RUQMHR/AMEMBASSY TEHRAN 2704
BT
C O N F I D E N T I A L JIDDA 3696

E.O. 12065: GDS 5/9/85 (SIGNER JACKSON L) OR-E
TAGS: ENRG OPEC SA US
SUBJ:DISCUSSION OF IRANIAN SHORTFALL WITH MINPET OFFICIALS

REF: (A) STATE 95864 (B) STATE 107272 (C) JIDDA 3544

1.C - ENTIRE TEXT.

2. USLO ECON OFFICER AND EMBASSY PETROLEUM REPORTING OFFICER HAD HOUR LONG CONVERSATION WITH CHIEF ECONOMIST OF MINISTRY OF PETROLEUM AND MINERALS, FAROUK HUSSEINI, AND SENIOR ECONOMIST SULEIMAN AL-HERBISH ON MAY 6. DRAWING ON POINTS CONTAINED IN REF A EMBASSY OFFICERS EXPRESSED CONCERN OVER VERY TIGHT WORLD SUPPLY SITUATION WHICH WAS BEGINNING TO SHOW UP AS ACTUAL PRODUCT SHORTAGES IN SOME AS WELL AS BEING THE CAUSE OF INSTABILITY IN CRUDE OIL PRICES.

3. WHEN ASKED WHAT WAS THE SAUDI VIEW OF CURRENT IRANIAN PRODUCTION, HUSSEINI REPLIED THAT THEY BELIEVED IT TO BE 4 MILLION B/D PLUS ENOUGH FOR DOMESTIC CONSUMPTION. EMBOFFS SAID THAT, ALTHOUGH WE UNDERSTOOD THAT TO BE THE IRANIANS' STATED GOAL AND THAT PRODUCTION HAD HIT THAT LEVEL BRIEFLY AT LEAST ONCE, IT WAS OUR BELIEF THAT IRANIAN EXPORT PRODUCTION WAS STILL CONSIDERABLY BELOW THE 4 MILLION B/D MARK AND WAS THE PRINCIPAL CAUSE OF THE CURRENT TIGHT SUPPLY SITUATION. THEREFORE, A COMBINATION OF SUCCESSFUL CONSERVATION MEASURE AND CONTINUING HIGH LEVELS OF PRODUCTION WOULD BE REQUIRED TO STABILIZE THE WORLD OIL MARKET

4. HUSSEINI EXPRESSED CONSIDERABLE INTEREST AND SOME MID SKEPTICISM

OVER AMERICAN EFFORTS AT CONSERVATION IN LIGHT OF FIRST QUARTER US OIL DEMAND AND IMPACT FIGURES CONTAINED IN APRIL 30 ISSUE OF "PETROLEUM INTELLIGENCE WEEKLY." EMBOFFS WERE ABLE TO POINT OUT THAT, ALTHOUGH OVERALL DEMAND HAD CONTINUED TO INCREASE, THE FIGURES ALSO CONTAINED EVIDENCE THAT THE PRESIDENT'S PROGRAM TO SUBSTITUTE NATURAL GAS FOR RESIDEUAL FUEL OIL APPEARED TO BE TAKING HOLD IN THAT DEMAND FOR RESIDUAL FUEL OIL ACTUALLY DECLINED DURING THE SAME PERIOD. WE THEN REVIEWED OTHER ASPECTS OF THE PRESIDENT'S ENERGY CONSERVATION PROGRAM, ITS EXPECTED RESULTS, AND THAT ITS GREATEST IMPACT WOULD BE APPARENT LATER THIS YEAR. THEREFORE, INASMUCH AS THE SUPPLY SHORTAGE WAS WITH US RIGHT NOW, THE MOST IMMEDIATE NEED WAS TO REBUILD WORLD INVENTORIES TO PREVENT CONTINUING SHORTAGES. HUSSEINI INTERJECTED THAT HE AGREED THAT INVENTORIES, ESPECIALLY IN THE US, WERE ABNORMALLY LOW.

5. HUSSEINI SPECULATED THAT THE CONTINUING INCREASE IN US DEMAND WAS THE RESULT OF FAILURE OF OTHER TYPES OF ENERGY TO BEAR THEIR FAIR SHARE OF THE US ENERGY BALANCE. ALTHOUGH HE CONDEDED THAT GAS HAD APPARENTLY BEEN REPLACING RESIDUAL FUEL OIL, HE QUESTIONED WHETHER THERE WERE ADEQUATE DOMESTIC GAS SUPPLIES TO CONTINUE THIS TREND. THIS COMMENT WAS PROLOGUE TO A DISCUSSION OF SAUDI ARABIA'S GAS GATHERING PROJECT, AND THE POTENTIAL FOR LPG TO PLAY A SIGNIFICANT ROLE IN WORLD ENERGY BALANCE. HUSSEINI POINTED OUT THAT THE ESTIMATED 14 BILLION DO COST OF THE GAS GATHERING PROJECT WAS GREATER THAN THE VALUE OF ALL THE CURRENT OIL PRODUCING FACILITIES IN SAUDI ARABIA, THAT LGP WOULD REPRESENT A SIGNIFICANT ADDITION TO THE WORLD ENERGY BALANCE IN THE COMING YEARS, AND THAT PROPANE AND BUTANE HAD BECOME UNDERVALUED IN RESPECT TO BOTH CRUDE AND NATURAL GASOLINE PRICES. EMBASSY OFFICERS RESPONDED THAT GREAT UTILIZATION OF LPG, AT LEAST IN THE UNITED STATES, WAS DEPENDENT UPON BOTH COMMERCIAL AND REGULATORY FACTORS, AND THAT WE WOULD BE HAPPY TO EXPLORE
THESE MATTERS FURTHER WITH THE MINISTRY.

6. COMMENT: HUSSEINI APPEARED TO UNDERSTAND OUR POINT THAT WESTERN CONSERVATION EFFORTS ARE ESSENTIALLY LONG RUN MEASURES AND THAT COOPERATION FROM PRODUCERS IS NECESSARY TO COMPENSATE FOR THE IMMEDIATE EFFECTS OF THE IRANIAN SHORTFALL IN ORDER TO STABILIZE THE MARKET AND PROVIDE A CHANCE FOR CONSUMING NATIONS TO REBUILD INVENTORIES. HOWEVER, HE REFRAINED FROM COMMENTING ON WHAT THE SPECIFIC SAUDI RESPONSE WOULD BE.

7. HUSSEINI'S COMMENTS ON THE ROLE OF LPG ARE INTERSTING IN THAY THEY

ARE THE FIRST WE HAVE HEARD IN ANY DETAIL FROM A SENIOR MINISTRY OFFICIAL. ALTHOUGH THE PROSPECT FOR THE SALE OF LPG HAS BEEN REGULAR SUBJECT OF CONVERSATION WITH PETROMIN PRODUCTION AND MARKETING OFFICIALS, THIS IS THE FIRST TIME THE ISSUE HAS BEEN RAISED AT POLICY LEVEL. IT IS OUR IMPRESSION THAT THE MINISTRY IS LOOKING AT THE CURRENT SUPPLY SITUATION AS A MEANS OF ENHANCING THE PROSPECTS FOR LPG SALES. THIS WOULD IMPLY THAT THE SAUDI HAVE AN INTEREST IN MAINTAINING A CERTAIN DEGREE OF TIGHTNESS IN THE WORLD CRUDE SUPPLY UNTIL THE GAS GATHERING PROJECT GOES ONSTREAM IN MID-1980. ON THE OTHER HAND, GROWING SAUDI POLICY-LEVEL INTEREST IN EXPANDING LPG SALES MAY PROVIDE US WITH AN OPPORTUNITY TO BROADEN THE DISCUSSION OF FUTURE SUADI PRODUCTION LEVELS BY INCLUDING AN ELEMENT OF SAUDI SELF-INTEREST.

DANIELS
BT
#3696

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DE RUQMHR
O RUQMRA #3893 1410920
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INFO RUQMDH/AMCONSUL DHAHRAN 2459
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RUQMBI/AMEMBASSY ABU DHABI 1693
RUQMHR/AMEMBASSY TEHRAN 2708
RUQMOD/AMEMBASSY DOHA 711
RUQMKW/AMEMBASSY KUWAIT 4229
RUFNPS/AMEMBASSY PARIS 2021
RUDTC/AMEMBASSY LONDON 4155
RUFHMD/AMEMBASSY MADRID 129
RUEHCR/USINT BAGHDAD 3210
RUEATRS/DEPT OF THE TREASURY WASHDC
BT
C O N F I D E N T I A L

LIMITED OFFICIAL USE JIDDA 3893

E.O. 12065: NA
TAGS: ECON, ENRG, MASS
SUBJECT: DISCUSSION WITH FRENCH DCM, MR. PIERRE LAFRANCE ON OIL AND ARMS

1. THE FRENCH EMBASSY'S DEPUTY CHIEF OF MISSION, MR. PIERRE LAFRANCE, MET ON WEDNESDAY, MAY 16, WITH MESSRS. MORRIS, SALOOM, AND WALKER TO DISCUSS ISSUES RELATED TO SAUDI ARABIAS PRESENT ROLE IN OPEC. HE ASKED IF USG EMBASSY OFFICIERS THOUGHT THAT SAUDI ARABIA WOULD REDUCE ARAMCO'S PRODUCTION BELOW 8.5 MILLION BARRELS PER DAY TO TO A LEVEL WHICH WOULD REDUCE THE SAUDI 1979 DAILY AVERAGE TO 8.5 MBD. HE FURTHER INQUIRED AS TO WHETHER SAUDI ARABIA MIGHT EVEN CUT BACK ARAMCO PRODUCTION MORE DRASTICALLY, THEREBY FACILITATING MORE RAPID OPEC PRICE INCREASES, REGARDLESS OF THE ADVERSE ECONOMIC AND POLITICAL IMPACT OF SUCH A CUTBACK ON SAUDI FINANCIAL ASSETS HELD ABROAD, WE AGREED THAT A DRASTIC CUTBACK WAS VERY UNLIKELY AND THAT IN LIEU OF A SAUDI POLICY STATEMENT,

OUR WORKING ASSUMPTION IS THAT ARAMCO WILL PRODUCE 8.5 MBD FOR THE REMAINDER OF 1979.

2. MR. LAFRANCE RECALLED THAT IN RECENT DICUSSIONS WITH PETROMIN OFFICIALS THEY REMINDED HIM THAT THE SAG'S TARGETED 14 MBD INSTALLED CAPACITY HAD NEVER BEEN INTENDED AS A PRODUCTION GOAL, BUT AS CONTINGENCY CAPACITY FOR "EMERGENCIES".

3. MR. LAFRANCE OBSERVED THAT THE DEMAND SIDE OF THE OIL EQUATON ISAS IMPORTANT AS THE SUPPLY SIDE FOR AVERTING A SHORTFALL. IN THIS CONTEXT, HE COMMENTED THAT THE FRENCH ARE PUSHING AHEAD WITH NUCLEAR POWER. DESPITE CONCERN IN FRANCE ABOUT THE POLICE STATE MENTALITY THAT MIGHT EVOLVE TO COMBAT THE THREAT OF SABOTAGE. TECHNICAL FAILURE, HOWEVER, IS NOT A WIDE-SPREAD FEAR IN FRANCE, HE THOUGHT, BECAUSE THE FRENCH HAVE BEEN LUCKY ENOUGH TO AVOID ACCIDENTS.

4. WHEN WE ASKED MR. LAFRANCE ABOUT OIL DISCUSSIONS DURING CROWN PRINCE FAHD'S RECENT VISIT TO PARIS, HE COMMENTED THAT THE FRENCH GOVERNMENT HAD REQUESTED A RENEWAL OF FRANCE'S OIL PURCHASE AGGREEMENT WITH SAUDI ARABIA. THE SAUDIS REPLIED THAT DISCUSSIONS OF THIS SHOULD BE DEFERED UNTIL THE PRESENT SAUDI-FRENCH OIL AGREEMENT EXPIRES IN OCTOBER.MR. LAFRANCE THOUGHT THAT SAUDI HESTIANCY TO RENEW ITS OIL SUPPLY AGGREEMENT NOW WITH THE FRENCH MAY HAVE BEEN MOTIVATED BY SAG DESIRE TO RETAIN MORE OIL/FOR DELIVERY TO LDC'S. HE OBSERVED THAT SEVERAL COUNTRIES, INCLUDING SPAIN AND BANGLADESH, HAVE RENEWWED OIL SUPPLY AGREEMENTS WITH THE SAUDIS RECENTLY.

5. MR. LARFANCE CONFIRMED PRESS REPORTS THAT PRINCE FAHD HAD DISCUSSED SAUDI PURCHASE OF FRENCH MIRAGES, DURING THE PIRNCE'S RECENT VISIT TO PAIRS. WHEN ASKED IF THE FRENCH ARE CONCLUDING EXPLICIT AGREEMENTS OF OIL FOR ARMS WITH THE SAUDIS ASTHEY HAVE WITH IRAQ, HE QUIPPED THAT THE FRENCH WOLD, IF NECESARY, GIVE THE SAUDIS OIL IF THEY WOULD PURCHASE FRENCH ARMS. UNFORTUNATELY FOR FRANCE, HE ADDED, IT CANNOT PENE-

TRATE THE SAUDI ARMS MARKET, BECAUSE OF THE DOMINANT US ROLE. MR. LAFRANCE CONFIRMED THAT THE FRENCH ARE CONTINUEING THEIR VL FOR ARMS AGREEMENT WITH THE IRAQIS.

6. COMMENT: DCM LAFRANCE'S QUESTIONS ABOUT POSSIBLE SAG OIL PRODUCTION CUTBACKS PRECEDED BY A FEW HOURS MINISTER OF PETROLEUM YAMANI'S STATEMENT IN THE WASHINGTON STAR THAT HE THOUGHT THERE WOULD BE NO SAUDI OIL PRODUCTION CUTBACK THISYEAR. YAMANI SAID, "I THINK UNDER PRESENT CURCUMSTANCES WE WILL KEEP PRODUCTION FOR THE 9 MONTHS AT 8.5 MILLION BARRELS PER DAY, AND THE FIRST QUARTER WILL STAY AS IT IS, 9.5 MBD, SO THE AVERAGE, THE YEARLY AVERAGE, WILL BE MORE THAN 8.5 MBD, A LITTLE BIT LESS THAN 9.0 MBD." DANIELS

BT

#3893

VV ESA890RAA320
PP RUQMHR
DE RUQMRA #7234 2881321
ZNY CCCCC ZZH
P 151313Z OCT 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC PRIORITY 7655
INFO: RUQMBI/AMEMBASSY ABU DHABI PRIORITY 1791
RUEHEG/AMEMBASSY CAIRO PRIORITY 3835
RUQMOD/AMEMBASSY DOHA PRIORITY 777
RUQMKW/AMEMBASSY KUWAIT PRIORITY 4340
RUDKBT/AMEMBASSY RABAT PRIORITY 815
RUQMMI/AMEMBASSY MUSCAT PRIORITY 706
RUQMAM/AMEMBASSY MANAMA PRIORITY 1526
RUQMHR/AMEMBASSY TEHRAN PRIORITY 2785
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 1794
RUQMDH/AMCONSUL DHAHRAN PRIORITY 3035
RUQMYA/USLO RIYADH PRIORITY 4155
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C O N F I D E N T I A L JIDDA 7234

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E.O. 12065: GDS 10/15/85 (PLACKE, JAMES A) OR-M
TAGS: PEPR SA US
SUBJ: ABDULLAH-BALL MEETING

1, (C-ENTIRE TEXT.)

2. THE HONORABLE GEORGE W. BALL, FORMER UNDER SECRETARY OF STATE, MET WITH PRINCE ABDALLAH, SECOND DEPUTY PREMIER AND COMMANDER OF THE NATIONAL GUARD, FOR NEARLY TWO HOURS ON OCT 14. THE AMBASSADOR AND POL/MIL COUNSELOR ALSO PARTICIPATED.

3. ABDALLAH WELCOMED MR. BALL WARMLY AND LISTENED WITH OBVIOUSLY GREAT INTEREST AS MR BALL DESCRIBED THE RECENT EVOULUTION OF AMERICAN PUBLIC OPINION ON ME SETTLEMENT AND STRATEGI ISSUES. EMPHASIZING THAT HE SPOKE AS A PRIVATE CITIZEN, MR BALL NOTED THAT PUBLIC OPINION WAS BEGINNING TO DIFFERENTIATE SELECTIVELY BETWEEN

U.S. NATIONAL INTERESTS AND THOSE OF ISRAEL. AN ACCOMPANYING FACTOR WAS GROWING AWARENESS OF THE HITHERTO LITTLE KNOWN PALESTINIANS AND THEIR PLIGHT. A SECOND DEVELOPMENT WAS GROWING RECOGNITION OF A COMMONALITY OF INTERESTS SHARED BY THE US AND SAUDI ARABIA IN THE SECURITYOF THE ARABIAN GULF.

4. ABDALLAH MENTIONED THREE HARMFUL "RUMORS" THAT HAVE CIRCULATED AMONG MENATIONS FRIENDLY TO THE US: 1—THAT PRESIDENT SADAT'S SUDDEN INITIATIVE TO VISIT ISREAEL IN 1977 HAD RECEIVED THE NECESSARY PRIOR APPROVAL OF THE U.S.; 2—THAT THE US AND THE USSR WERE SOMEHOW IN SECRET AGREEMENT TO LET ARAB STATES FIGHT AMONG THEMSELVES, TO THE ULTIMATE ADVANTAGE OF THE SUPERPOWERS; AND 3—THAT THE U.S. AND USSR HAD AGREED SECRETLY TO OPPOSE ISLAM JOINTLY. MR BALL REASSURED ABDALLAH THAT THESE "RUMORS" WERE UTTERLY UNTRUE.

5. AT SEVERAL POINTS, ABDALLAH URGED THAT THE USG DEMONSTRATE VIGOR IN COUNTERING SOVIET AND SURROGATE THREATS TO ME SECURITY. HE ADVOCATED A COMBINATION OF "SWINGING THE STICK" AND ACTIVE DIPLOMACT. IN THIS VEIN, ABDALLAH (WHO EARLIER IN THE MEETING HAD LISTENED INTENTLY TO AMBASSADOR WEST'S REVIEW OF THE MOROCCAN MILITARY SITUATION, DERIVED FROM RABAT 7148) ASKED MR. BALL TO URGE UPON THE CONGRESS AND ELSEWHERE PROVISION OF MILITARY SUPPORT TO KING HASSAN. TO BOLSTER HIS ADVOCACY OF FIRMNESS IN THE GULF REGION, ABDALLAH CLAIMED THAT SAUDI ARABIA REVERSED IRANIAN AGGRESSIVE DESIGNS ON BAHRAIN BY WARNING TEHRAN THAT ANY TAKEOVER ATTEMPT WOULD BE OPPOSED BY THE SAUDIS. WEST

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RUQMDH/AMCONSUL DHAHRAN 2509
RUQMYA/USLO RIYADH 3496
RUQMHR/AMEMBASSY TEHRAN 2721
BT
C O N F I D E N T I A L

LIMITED OFFICIAL USE JIDDA 4285

E.O. 12065: N/A
TAGS: PINT, SCUL, SOPN, SA
SUBJECT: MORALITY NEWS

1. WRITING IN "AL-MADINA" OF JUNE 3, FEMALE COLUMNIST SOHAYLA ZAYN AL-ABIDIN HAMMAD HAS DENOUCED THE IMMORAL CONDUCT OF SAUDI YOUTH IN FORIEGN COUNTRIES AND HAS PROPOSED A NOVEL POLICY FOR DEALING WITH THE PROBLEM. CALLING OFFENDERS "A DISGRACE TO THEIR COUNTRY", MS. HAMMAD SUGGESTS THAT SAUDI EMBASSIES ABROAD SHOULD APPOINT INSPECTORS TO CHECK ON NIGHT CLUBS AND SIMILAR PLACES TO ARREST THOSE GUILTY "OF VIOLATING OUR RELIGION". VIOLATIONS WOULD PRESUMABLE INCLUDE DRINKING, GAMBLING, DANCING, AND CO-MINGLING.
2. MR. HAMMAD URGES THAT OFFENDERS, ONCE ARRESTED, SHOULD BE RETURNED TO THE KINGDOM FOR TRIAL. THEIR PASSPORTS SHOULD BE WITHDRAWN AND THEY SHOULD BE BANNED FROM TRAVELLING FOR A CERTAIN PERIOD AS A PUNISHMENT.

POL CHG RF ICA CHRON

3. COMMENT: WE HAVE NOT CHECKED WITH THE FOREIGN MINISTRY TO ASCERTAIN ITS REACTION TO THIS SUGGESTION, BUT THE POST OF CHIEF INSPECTOR IN LONDON OR PARIS MIGHT NOT BE A DIFFICULT ONE TO FILL. IF THE SAUDI DIPLOMATIC MISSIONS ARE UNABLE (OR UNWILLING) TO UNDERTAKE THIS TASK, THEN IN THE FUTURE WE MIGHT SEE MEMBERS OF THE SOCIETY FOR THE ENCOURAGEMENT OF VIRTUE AND PREVENTION OF VICE CARRYING OUT THEIR DUTIES IN THE NIGHT CLUBS OF HAMBURG.

4. FOREIGN TRAVEL FOR SAUDIS ACTS AS AN IMPORTANT SAFETY VALVE TO EASE THE PRESSURES OF LIFE AT LEAST FOR THE UPPER CLASSES, UNDER WAHHABI AUSTERITY. THE GOVERNMENT HAS TACITLY RECOGNIZED THIS VALUE OF FOREIGN TRAVEL AND HAS MADE IT VERY EASY FOR VIRTUALLY ANY SAUDI TO TRAVEL ABROAD. ONE RESULT OF THIS EASY TRAVEL IS THAT THE LOCAL PRESS IS OFTEN FILLED WITH COLUMNS DENOUNCING THE IRRESPONSIBLE BEHAVIOR OF SAUDIS ABROAD. HOWEVER, NO ONE HAS GONE AS FAR AS MR. HAMMAD IN PROPOSING GOVERNMENT ACTION. MANY SAUDI WOMEN PRIVATELY COMPLAIN ABOUT THE FREEDOM THEIR MEN ENJOY OVERSEAS -- A FREEDOM WHICH IS DENIED MOST WOMEN, WHO ARE EITHER LEFT IN THE KINGDOM OR CLOSELY CHAPERONED WHEN ABROAD.

5. IN ANOTHER MOVE ON THE MORALITY FRONT, "OKAZ" OF JUNE 3 REPORTED THAT THE MINISTRY OF COMMERCE HAS BANNED THE IMPORTS OF T-SHIRTS BEARING PICTURES OF SOPORT AND TELEVISION HEROES SUCH AS STEVE AUSTIN, BATMAN, AND MUHAMMAD ALI.

DANIELS

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RUQMYA/USLO RIYADH 3512
RUQMBI/AMEMBASSY ABU DHABI 1709
RUFHRS/AMEMBASSY ALGIERS 7181
RUESRS/AMEMBASSY CARACAS 297
RUFHOL/AMEMBASSY BONN 636
RUQMOD/AMEMBASY DOHA 725
RUKOBT/AMEMBASSY JAKARTA 246
RUQMKW/AMEMBASSY KUWAIT 4249
RUEHOS/AMEMBASSY LAGOS 226
RUFHLC/AMEMBASSY LIBREVILLE 45
RUDTC/AMEMAASSY LONDON 4171
RUQMAM/AMEMBSSY MANAMA 1469
RUEHME/AMEMBASSY MUSCAT 659
RUDKSNG/AMEMBASSY OSLO 47
RUFNPS/AMEMBASSY PARIS 2029
RUESQI/AMEMBASSY QUITO 78
RUQMHR/AMEMBASSY TEHRAN 2723
RUQMTI/AMEMBASSY TRIPOLI 1038
RUFHAU/AMEMBASY VIENA 248
RUEHAD/USIMT BAGHDAD
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6 Jun 79 13 56z

DEPARTMENT PASS H FOR SENATOR CHILES

E.O. 12065: Y6/6/85 (BOVIS, H. EUGENE) OR-P
TAGS/ ENRG, PEPR, SA, US, OREP
SUBJECT: (U) CONVERSATION BETWEEN SENATOR CHILES AND CROWN PRINCE FAHD: FAHD'S VIEWS ON OIL.

1. (C - ENTIRE TEXT)

2. SENATOR LAWTON CHILES HAD AUDIENCES WITH CROWN PRINCE FAHD ON JUNE 4 LASTING MORE THAN TWO HOURS. MEETING WAS ALSO ATTENDED BY CHARGE, POL COUNSELOR, AND STAFF AIDES JORDAN AND COLLINS. THREE BASIC SUBJECTS WERE COVERED: MIDDLE EASTPEACE, SAUDI SECURITY, AND SAG ROLE IN DETERMINING OIL PRICING AND PRODUCTION. THE FIRST TWO SUBJECTS ARE REPORTED BY SEPTEL.

3. CROWN PRINCE FAHD TOLD SENATOR CHILES THAT SAUDI ARABIA HAS NO INTEREST IN RAISING OIL PRICES AND THAT IT HAS WORKED FOR SEVERAL YEARS TO KEEP OIL PRICES DOWN. SAUDI ARABIA UNDERSTANDS THE DANGEROUS CONSEQUENCES OF SHARP RISES IN OIL PRICES. UNFORTUNATELY, THE OTHER OPEC MEMBERS HAVE NOT KEPT THE PRICE GUIDELINES DECIDED ON AT THE LAST OPEC METING. SAUDI ARABIA, HOWEVER, HAS ABIDED BY THE OPEC GUIDELINES AND FOR THIS REASON IS LOSING MORE THAN TEN MILLION DOLLARS A DAY. HE SAID THAT SAUDI ARABIA WOULD CONTINUE TO WORK TO MODERATE PRICE INCREASES AND HE THOUGHT TI WAS NECESARY TO GO BACK TO SINGLE PRICE. HE DID NOT THINK, THOUGH, THATSAUDI ARABIA COLD CARRY THE BATTLE ALONE. IT WOULD BE HLEPFUL IF THE CONSUMING COUNTRIES WOULD PRESS THE OTHER OPEC COUNTRIES ON THESE SUBJECTS. HE HAD MADE THIS POINT TO FRANCE, GERMANY, AND ITALY DURING HISRECENT TRIP AND HE URGED THEM TO GET IN TOUCH WITH THE LEADERS OF THE OTHER OPEC COUNTRIES AND POINT OUT THE DANGEROUS CONSEQUENCIES OF A PRICE INCREASE. FAHD SAID THAT THE WISHED TO MAKE TWO POINTS FOR THE SENATOR. SAUDI ARABIA WILL FIGHT AN OIL PRICE INCREASE AT THE UPCOMING OPEC MEETING. FAILING THAT, SAUDI ARABIA WOULD APPEAL TO OPEC MEMBES TO BE REASONBLE IN ANY PRICE INCREASE. HOWEVER, IF THERE IS PRICE INCREASE, SAUDI ARABIA WILL ALSO INCREASE ITS PRICE. IT CANNOT PERMIT OTHER COUNTRIES TO ENJOY PRICE INCREASESE WHILE IT DOES NOT DO SO ALSO. THE SECOND POINT HE WISHED TO MAKE WAS THAT IF IT WAS NECESARY IMRAISE PRICES SAUDI ARABIA WOULD ALSO INCREASE OIL PRODUCTION AS MUCH AS POSSIBLE. HE DID NOT KNOW BY HOW MUCH TI WOULD BE INCREASED, BUT IN ANY CASE HE WOLD DO HIS BEST.

4. PRINCE FAHD SAID THAT ANOTHER PRESSURE FOR HE CONTINUED INCREASE IN OIL PRICES WAS THE GREED OF THE OIL COMPANIES. HE SAID THIS IS ONE AREA WHERE THE WESTERN COUNTRIES CAN HELP. OIL COMPANIES HAVE TAKEN ADVANTAGE OF THE OIL MARKET AND HAVE RAISED PRICES. SENATOR CHILES SIA DTHAT THE US WS VERY CONSCIEOUS OF THE ROLE THAT THE OIL COMPANIES MAY HAVE PLAYED IN THE PIRCE INCREASES. HE SAID THAT CONGRESS HAS A WINDFALL OIL PROFITS TAX BAILL BEFORE IT. HE THOUGHT THERE WOULD BE A STRONG FIGHT IN CONGRESS BUT CONGRESS WILL PASS IT

5. SENATOR CHILES SAID THA WE GREATLY APPRECIATED THE SAUDI INCREASE IN PRODUCTION DURING THE IRANIAN CRISIS. WITHOUT THAT INCREASE THE WORLD WOULD HAVE BEEN IN SERIOUS TROUBLE. WE UNDERSTAND OF COURSE THAT SAUDI ARABIA CANNOT CONTINUE SUSTAINED PRODUCTION AT INCREASED RATES. HOWEVER, HE HOPED, IN VIEW OF CURRENT IRANIAN SHORTFALL, THAT SAUDI ARABIA OULD DO ITS BEST TO HELP US OVER THIS PERIOD. HE NOTED THAT ONE FO THE REASONS THE SHORTAGE IS SO ACUTE AT THE PRESENT TIME IS THA EVERYONE IS AFRAID OF THE RESULTS OF THE SHORTFALL AND IS TRYING TO HOARD OIL. IF WE CAN GET BEYOND THE POINT TO HOARD SUPPLIES, IT WOULD BE BETTER. FAHD READILY AGREED.

6. COMMENT: FAHD'S STATEMENT-- IF PRICES MUST BE RAISED THEN THE SAG WOULD INCREASE OIL PRODUCTON AS MUCH AS POSSIBLE-- STANDS IN STARK CONTRAST TO OIL MINISTER YAMANI'S RECENT PUBLIC STATEMENTS ON RETENTION OF THE 8.5 MILLION B/D PRODUCTION CEILING FOR THE REST OF 1979. THE SAG MAY ENCOUNTER RESISTANCE FROM OTHER OPEC COUNTRIES IF ITS PRODUCTION INCREASES IS SIGNIFICANT ENOUGH TO APPRECIABLY REDUCE THE OL MARKET TIGHTNESS.
THIS MESSAGE HAS NOT BEEN SEEN BY SENATOR CHILES.
DANIELS
BT
#4275

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RR RUQMNR
DE RUQNRA #4596 1701200
ZNY SSSSS ZZH
R 191035Z JUN 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 6448
INFO RUQMNR/AMEMBASSY TEHRAN 2729
RUFNRS/AMEMBASSY ALGIERS 7186
BT
S E C R E T JIDDA 4596

19 Jun 79 12 51z

ECON
CHG
POL
Ethron

E.O. 12065: GDS 6/19/85 (NORRIS, CHESTER) OR-E
TAGS: EINV, IR, AG, SA
SUBJECT: SECURITIES AND EXCHANGE COMMISSIION ALLEGATIONS OF ILLICIT PAYMENTS BY INTERNATIONAL SYSTEMS CONTROL CORPORATION

REF: STATE 156433

1. (S - ENTIRE TEXT)

2. EMBASSY BELEIVES THA PUBLIC AIRING OF THESE ALLEGATIONS BY SEC COULD ONLY COMPLICATE FURTHER US-SAG RELATIONS AT A TIME WHEN INTERESTS OF FAR GREATER MOMENT ARE AT STAKE FOR USG--NAMELY OIL PRODUCTION AND PRICING POLICIES TO BE TAKEN BY SAG AT UP--COMING OPEC MEETING IN GENEVA ON JUNE 26.

3. OU RELATIONS HAVE RECENTLY COME UNDER CONSIDERABLE STRESS AS A RESULT OF IMPORTANT USG-SAG DIFFERENCES ON THE MID-EAST PEACE. SAG PREFERS TO MAINTAIN CORDIAL BILATERAL REALTIONS WITH USG TO EXTENT THAT SUCH EXISITNG DIFFERENCES WILL PERMIT. HOWEVER, IN SAG PERCEPTION A MULTIPLICITY OF "MINOR" ISSUES, WHICH SAG USUALLY CONSIDERS OF US ORIGIN OR MANUFACTURE, ARE CURRENTLY EXACERBATING TENSIONS WHICH HAVE ARISEN OVER THE LARGER ISSUES. NON-INVESTMENT OF EXCESS SAUDI FMS FUNDS, AN ALLEGED SEX DISCRIMINATION CASE IN THE INSTANCE OF THE BENDIX-SIYANCO MODA CONTRACT, THE TREASURY PROPOSED TAX REGULATION WHICH WOULD DENY TAX CREDITS TO US OIL COMPANIES (ARAMCO PRINCIPALS), AND ADVERSE PUBLICITY ABOUT THE ROYAL FAMILY IN THE US PRESS ARE EXAMPLES OF ITEMS CURRENTLY COMPLICATING OUR BILATERAL RELATIONS.

4. THEREFORE, WE SUGGEST THAT THE SEC UNDERTAKE CAREFUL SCRUTTINY OF THE VALIDITY OF THE ALLEGATIONS, AFTER WHICH TIME WE CAN ADVISE HOW AND WHEN TO PROCEED TO MINIMIZE ADVERSE FOREIGN POLICY EFFECTS. TO MAKE PUBLIC NOW THE ALLEGATIONS WOULD RISK UNNECESSARY DAMAGE TO OUR RELATIONSHIP WITH THE SAG.

5. IN ANY CASE, CAN THE DEPARTMENT REQUEST A STAY IN SEC ACTIONS UNTIL WE HAVE TIME TO STUDY THE MATTER FURTHER, PERHAPS CONSULTING INFORMALLY WITH SAG AS WE DID IN PREVIOUS CASES?
WEST
BT
#4596

NNNNVV ESA486DHA029
PP RUQMHR
DE RUQMDH #1018/1 1711310
ZNY CCCCC ZZH
P R 201340Z JUN 79
FM AMCONSUL DHAHRAN
TO RUEHC/SECSTATE WASHDC PRIORITY 7202
INFO RUQMRA/AMEMBASSY JIDDA 9502
RUQMYA/USLO RIYADH 963
RUQMBI/AMEMBASSY ABU DHABI 463
RUQMKW/AMEMBASSY KUWAIT 1413
RUQMAM/AMEMBASSY MANAMA 791
RUEHKO/AMEMBASSY TOKYO 64
RUEHOS/AMEMBASSY LAGOS 43
RUEHDM/AMEMBASSY DAMASCUS 102
RUQMHR/AMEMBASSY TEHRAN 1328
RUFHGV/USMISSION GENEVA 1018
BT

20 Jun 79 14 28z

ECON
CHG
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CHRON

C O N F I D E N T I A L SECTION 1 OF 2 DHAHRAN 1018/1

E.O. 12065: GDS 6/20/85 (MEYERS, DONALD F.) ORE-E
TAGS: ENRG, OPEC, SA
SUBJECT: ASSISTANT DEPUTY OIL MINISTER VIEWS WORLD OIL SITUATION AND UPCOMING OPEC MEETING

1. SUMMARY: KHIDR HERZOLLAH (PROTECT), ASSISTANT DEPTY MINISTER OF PETROLEUM, DISCUSSED WORLD ENERGY SITUATION WITH CONSOFF ON JUNE 20. HE CLAIMED LARGE CRUDE OIL PURCHASES BY AMERICAN OIL COMPANIES WERE CURRENTLY KEEPING SPOT MARKET CHAOTIC AND THAT WITH RECENT LOWER PRODUCTION IN IRAN, MARKET DISEQUILIBRIUM WILL PROBABLY CONTINUE. HE WONDERED IF IRANIAN GOVERNMENT WAS "PLAYING GAMES" AT PRESENT TO FORCE HIGHER PRICES AT UPCOMING OPEC MEETING. HERZOLLAH LEFTE IMPRESSION THAT SAG HAD NOT WORKED OUT PRECISE STRATEGY FOR MEETING BUT WOULD TRY FOR MODERATION IN PRICE HIKE AND OFFER TO BOOST PRODUCTION TO BRING STABILITY TO MARKET. TOUCHING BRIEFLY ON APPARENT STRAINED USG/SAG RELATIONS, HE OBSERVED THAT SAUDI "PLITICIANS" WERE LESS PRONE TO DO FAVORS FOR FRIENDS WHO DID NOTHING TO PREVENT SOILING SAUDI REPUTATION. END SUMMARY.

2. KHIDR HERZOLLAH, ASSISTANT DEPUTY MINISTER FOR PETROLEUM WHO IS PETROMIN YAMANI'S CHIEF EXPERT ON FINANCE AND WHO IS LEAVING ON JUNE 23 TO ATTEND GENEVA OPEC CONFERENCE, SPOIKE WITH CONSOFF ON JUNE 20 REGARDING WORLD ENERGY STIUATION, UPCOMING OPEC CONFERENCE, U.S. MEASURES TO CONSERVE ENERGY, U.S. POLITICS, RUMORS OF U.S. TAKEOVER OF OIL FIELDS, SAUDI ABILITY TO INFLUENCE OIL PRICES, AND USG/SAG RELATIONS.

4. HERZOLLAH STATED THAT IT WAS HIS OPINION THAT THE LARGE AMERICAN OIL COMPANIES WERE KIIPING SPOT MARKET PRICES HIGH AND CHAOTIC BY PURCHASING LARGE AMOUNTS IN THAT MARKET. HE SAID THAT HE HEARS ALMOST EVERY DAY OF SOME AMERICAN FIRM TRYING TO OUTBID OTHER FIRMS FOR CRUDE.

5. WHEN IT WAS POINTED OUT TO HERZOLLAH THAT RECENT REPORTS HAD IRANIAN PRODUCTION CURRENTLY BELOW 3 MILLION B/D AND THAT THIS COULD BE MAJOR CONTRIBUTOR TO MARKET DISRUPTION, HERZOLLAH AGREED. HE WONDERED IF GOI WAS "PLAYING GAMES" AT PRESENT IN ORDER TO PUSH FOR HIGHER PRICES AT OPEC MEETING. IRANIANS COULD SHOW THAT IN SPITE OF THEIR RESUMTPION OF PRODUCTION, MARKET WAS STILL DESTABILIZED AND ONLY HIGHER PRICES WOULD CUT DEMAND. HOWEVER, HERZOLLAH BALANCED THIS IDEA WITH DISCUSSION OF LEFTIST ELEMENTS IN IRANIAN OIL WORK FORCE WHO WERE HOLDING DOWN PRODUCTION AND LEFTINGS FOR THEIR OWN INTERNAL POLITICAL REASONS.

6. CONSOFF ATTEMPTED SEVERAL TIMES DURING CONVERSATION TO STERR HERZOLLAH TOWARD SAUDI POSITION ON UPCOMING OPEC MEETING BUTIWITHOUT MUCH SUCCESS. HERZOLLAH LEFT IMPRESSION THAT SAG HAD NOT WORKED OUT DETAILED POSITION BUT WOULD STRIVE FOR "MODERATION." "THERE WILL BE AN INCREASE IN PRICES," HERZOLLAH SATED, "BUT I CAN'T SAY HOW MUCH." THE ONLY HINT HE WOULD GIVE OF SAUDI POSITION WAS THAT HE WOULD LIKE TO SEE "STEADY, UPWARD RISE IN PRICES," BY "SMALL INCRIMENTS, NOT BIG JUMPS AS IN THE PAST."

6. HERZOLLAH WAS MOST INTERESTED IN U.S. EFFORTS TO CURB CONSUMPTION. HE THEN OUTLINED HIS CONSPIRACY THEORY BY U.S. ADMINISTRATION TO CONTROL CONSUMPTION BY FORCING HIGHER PRICES. "I DON'T THINK YOU GOVERNMENT IS TOO UNHAPPY ABOUT THE RECENT PRICE RISE," SAID HERZOLLAH," AS IT FORCES THE U.S. PUBLIC TO DO WHAT THE ADMINISTRATION HAS BEEN ATTEMPTING TO OBTAIN BY VOLUNTARY ACTIONS."

7. IN REPLY TO QUESTION ABOUT POSSIBILITY OF SAUDI ARABIA RAISING PRODUCTION, HERZOLLAH SAID THAT "OTHING HAS BEEN DECIDED, BUT IT'S A DEFINITE POSSIBILITY." PRODUCTION INCREASE MIGHT BRING SOME STABILITY TO MARKET, BUT IF IT WERE TRUE THAT IRANIAN PRODUCTION WAS BELOW 3 MBD, SAUDI BOOST IN PRODUCTION WOULD NOT GIVE THAT MUCH RELIEF. HOWEVER, IF U.S. AND OTHER INDUSTRIAL COUNTIRES CUT BACK ON CONSUMPTION AS MUCH AS THEY PROMISED TO DO, MARKET COULD RETURN TO SOME FORM OF EQUILIBRIUM. THE PROBLEM WAS TILL THERE, HOWEVER, HERZOLLAH SAID, SINCE THIS SUPPLY/DEMAND SITUATION WOULD ALLOW FOR NO GROWTH AND STAGNANT ECONOMIES.

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NNNNVV ESA489DHA031
PP RUQMHR
DE RUQMDH #1018/2 1711355
ZNY CCCCC ZZH
P R 201300Z JUN 79
FM AMCONSUL DHAHRAN
TO RUEHC/SECSTATE WASHDC PRIORITY 7203
INFO RUQMRA/AMEMBASSY JIDDA 9503
RUQMYA/USLO RIYADH 964
RUQMBI/AMEMBASSY ABU DHABI 464
RUQMKW/AMEMBASSY KUWAIT 1414
RUQMAM/AMEMBASSY MANAMA 792
RUEHKO/AMEMBASSY TOKYO 65
RUEHOS/AMEMBASSY LAGOS 44
RUEHDM/AMEMBASSY DAMASCUS 103
RUQMHR/AMEMBASSY TEHRAN 1329
RUFHGV/USMISSION GENEVA 1019
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20 Jun 79 14 28z

C O N F I D E N T I A L SECTION 2 OF 2 DHAHRAN 1018/2

8. WHEN CONSOFFS MENTIONED GREAT DIFFICULTIES FOR LDC COUNTIRES MEETING INCREASED COST OF OIL, HERZOLLAH SEEMED NOT AS YSMPATHETIC WITH LDC'S AS WITH PLIGHT OF INDUSTRIAL COUNTIRES. HE SAID HIGHER PRICES FOR LATTER COUNTRIES "HURT US, OUR ECONOMY, OUR IMPORTS, OUR INVESTMENTS."

9. HERZOLLAH THEN ASKED CONSOFF IF HE THOUGHT THERE WAS POSSIBILITY THAT U.S. WAS CONSIDERING TAKING OVER SAUDI OIL FIELDS. HE SAID "TOP RANKING" SAUDI OFFICIALS HAD SAT IN SAME CHAIR THAT CONSOFF WAS IN, AND THEY HAD DISCUSSED MATTER IN LIGHT OF INCREASING WORLD ENERGY SHORTAGE. OTHER SAUDI OFFICIAL HAD ADVANCED THEORY THAT INCREASED SHORTAGE OF ENERGY SUPPLIES WOULD CAUSE AMERICANS TO TRY TOAKEOVER IN ORDER PREVENT RAPID DETERIORATION IN AMERICAN LIFE STYLE. HOWEVER, THIS OFFICIAL SAID THAT SAUDIS WOULD NEVER COOPERATE ("WE WILL HAVE THE WORKERS FACING MECCA NINE TIMES A DAY TO PRAY") AND U.S. COULD NEVER CONTROL THE FIELDS. HERZOLLAH THEN ANSWERED HIS OWN QUESTION BY STATING THAT HE THOUGHT "SANE REASONING" WOULD PREVAIL IN USG, AND NOT ATTMEPT WOULD BE MADE.

9. AGAIN TRYING TO RETURN TO OPEC MEETING, CONSOFF SAID THAT SAUDIS WOULD HAVE DIFFICULT TIME AT GENEVA IN PREVENTING LARGE PRICE INCREASE BUT THAT WE WERE HOPEFUL THAT THEY COULD DO SO. HERZOLLAH REPLIED BY SAYING THAT IT WAS DIFFICULT FOR "FRIENDS OF THE U.S." TO BE HELFUL ON OIL MATTERS WHEN SAUDIS ARE MADE TO "LOOK BAD" BY CERTAIN ELEMENTS IN THE U.S., AND USG DOES NOTHING TO PREVENT SUCH SLANDER. "POLITICIANS (IN SAUDI ARABIA) ARE SENSITIVE TO MISREPRESENTATION OF SAUDI ARABIA," AND IT IS DIFFICULT FOR THEM TO CONTINEU THEIR COOPERATION WHEN SAUDI ARABIA IS VICTIM OF ELIBERATE ATTEMPT TO SOIL ITS REPUTATION.

10. CONVERSATION ENDED ON UPBEAT NOTE WITH HERZOLLAH TELLING OF HIS PLANS TO TAKE HIS WIFE AND CHILDREN TO U.S. NEXT MONTH. "I PROMISED TO SHOW THEM WASHINGTON, D.C.," HE SAID, "AND I WANT THEM TO SEE ALL THE MONUMENTS."
LINDSTROM
BT
#1018

26 Jun 79 04 41Z

VV ESA227BRA539
PP RUQMHR
DE RUEHC #4318/01 1770414
ZNY CCCCC ZZH
P 260108Z JUN 79
FM SECSTATE WASHDC
TO RUQMZN/USMISSION SINAI PRIORITY 9405
INFO INTSUM COLLECTIVE PRIORITY
RUEATRS/ TREASURY DEPARTMENT WASHDC PRIORITY 2356
RUEKJCS/DOD/ISA PRIORITY
BT
C O N F I D E N T I A L SECTION 01 OF 03 STATE 164318/01

Pol
CHG
ECON
RF
CHRON

E.O. 12065 GDS 6/25/85 (GRIFFIN, PHILIP J.)

TAGS: EG, IS, PINR

SUBJECT: INTSUM 839 - JUNE 25, 1979

LONDON FOR GLASPIE
PARIS FOR NICHOLAS MURPHY
DOD/ISA FOR RANSOM
OTHER ADDRESSEES FOR CHIEFS OF MISSION

(PARAGRAPHS 1-7 CONFIDENTIAL)

1. THE US AND SAUDI ARABIA: OIL TROUBLES THE WATERS: OPEC MEETINGS, LIKE ARAB SUMMITS, HAVE BEEN CONTRIBUTORS TO THE PROBLEMS IN THE US-SAUDI RELATIONSHIP. ALTHOUGH THE SAUDIS HAVE ASSURED US THEY WILL TRY TO HOLD OIL PRICE INCREASES TO A MINIMUM, THIS WEEK'S OPEC CONFERENCE SEEMS DESTINED TO BE ANOTHER IRRITANT.

2. AT THE BAGHDAD MEETINGS, WE HOPED THE SAUDIS WOULD TAKE POSITIONS WHICH THEY PERCEIVED TO BE IN BASIC CONTRADICTION TO THEIR INTERESTS AS AN ARAB MUSLIM STATE CONCERNED ABOUT JERUSALEM AND PALESTINIAN ASPIRATIONS.

3. AT OPEC WE WANT SAUDI ARABIA TO TAKE POSITIONS WHICH MANY SAUDIS SEE AS OPPOSED TO THEIR ECONOMIC AND POLITICAL INTERESTS.

(A) SOME YOUNG SAUDIS, SOME TECHNOCRATS, AND SOME MEMBERS OF THE RULING FAMILY WANT TO CONSERVE OIL PRODUCTION AND MAXIMIZE PRICE TO ASSURE STABLE, LONG-TERM GROWTH.

(B) THE SAUDIS DO NOT WANT TO BE ALONE IN OPPOSITION TO OPEC COLLEAGUES ALTHOUGH THEY HAVE PUBLICLY SPECULATED ABOUT POSSIBLE TWO-TIERED PRICING AGAIN, PERHAPS AS A BARGAINING CHIP WITH THOSE COUNTRIES WANTING SHARP PRICE INCREASES.

(C) OTHER ARAB STATES (AND MANY SAUDIS) WOULD SEE SAUDI EFFORTS TO ACCOMMODATE THE US ON PRICE AND PRODUCTION AS CAPITULATION TO US INFLUENCE.

MANY IN THE ARAB WORLD WOULD ARGUE THAT NOW IS PRECISELY THE TIME TO REVERSE THE RELATIONSHIP AND GET THE SAUDIS TO PRESSURE THE US. OUR LONG LINEUPS FOR GASOLINE AND NEWS STORIES ABOUT SCARCER AND MORE EXPENSIVE HEATING OIL THIS WINTER COINCIDE WITH THE ISRAELI DEBATE ON SETTLEMENT POLICY AND CONTINUED ISRAELI MILITARY ACTION IN LEBANON. THE TIME IS RIPE, THEY SAY, TO GET THE US, ISRAEL'S CHIEF PATRON, TO WRING CONCESSIONS FROM THE BEGIN GOVERNMENT.

4. BUT THE SAUDIS HAVE LITTLE TASTE FOR CONFRONTATION AND ONCE AGAIN SEEM TO BE SEEKING, IN PUBLIC AND PRIVATE STATEMENTS, A SAUDI-STYLE COMPROMISE (CAUSING THE MOST PEOPLE THE LEAST DISPLEASURE).

5. INDEED, THERE IS GREAT DOUBT THAT THE SAUDIS CAN INFLUENCE OPEC AS MUCH AS THEY ONCE DID. THE SAUDI ADHERENCE TO THE DOLS 14.55 PRICE PLUS A SMALL SURCHARGE HAS NOT KEPT OTHER OPEC MEMBERS FROM STEADILY RAISING PRICES. PREDICTIONS NOW CALL FOR NEW PRICES IN THE DOLS 18 TO DOLS 21 A BARREL RANGE. ALTHOUGH THE SAUDIS ARE INDICATING THEY INTEND TO PRESS HARD FOR PRICE MODERATION, THEY MAY HAVE ALREADY RESIGNED THEMSELVES TO SUCH INCREASES.

6. OF LATE THE SAUDIS HAVE MENTIONED A POSSIBLE PRODUCTION INCREASE OF 500,000 TO ONE MILLION BPD. THEY MAY SEE THIS AS A TEMPORARY MEASURE WITH THE AIM OF:

(A) LESSENING DEMAND AND RESTORING MORE ORDER TO THE MARKET;

(B) REDUCING SPOT MARKET PRICES;

(C) MAKING AN IMPORTANT POLITICAL ACCOMMODATION TO THE US TO OFFSET LIKELY CONGRESSIONAL AND PRESS CRITICISM OF WHATEVER ACTION OPEC TAKES; AND

(D) PRODDING CONSUMER COUNTRIES TO MAKE GOOD ON PROMISES OF CONSERVATION.

7. FUNDAMENTALLY, THE SAUDI LEADERSHIP HOPES THE RELATIONSHIP WITH THE US, A LONG LASTING AND BENEFICIAL ONE FOR BOTH PARTIES, CAN WEATHER THE PROBLEMS CAUSED BY OPEC DECISIONS. AFTER A SHARP DETERIORATION IN RELATIONS THIS SPRING FOLLOWING THE PEACE TREATY SIGNING AND WITHDRAWAL OF SAUDI SUPPORT TO EGYPT, SEVERAL SENIOR RULING FAMILY MEMBERS SAID PUBLICLY AND PRIVATELY THAT TIES WITH THE US ARE STILL VITAL TO SAUDI ARABIA AND DISAGREEMENTS OVER THESE ISSUES SHOULD NOT HURT OUR BILATERAL RELATIONS. ESSENTIALLY, THEY CHARACTERIZED THE US-SAUDI RELATIONSHIP AS ONE BETWEEN FRIENDS WHO HAD AGREED TO DISAGREE. IF THE FINAL OPEC COMMUNIQUE PUTS THE US AND SAUDIS AT ODDS, THE SAUDIS MAY HAVE TO DUST OFF THE FRIENDSHIP STATEMENTS AGAIN. THEY WOULD THEN EXPECT BT
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NNNNVV ESA228BRA540
PP RUQMHR
DE RUEHC #4318/02 1770415
ZNY CCCCC ZZH
P 260108Z JUN 79
FM SECSTATE WASHDC
TO RUQMZN/USMISSION SINAI PRIORITY 9406
INFO INTSUM COLLECTIVE PRIORITY
RUEATRS/ TREASURY DEPARTMENT WASHDC PRIORITY 2357
RUEKJCS/DOD/ISA PRIORITY
BT

26 JUN 79 04 41Z

C O N F I D E N T I A L SECTION 02 OF 03 STATE 164318/02

THE US TO RESPOND IN A SIMILAR SPIRIT.

8. (LOU) EGYPT: PRESIDENT SADAT OPENED THE NEW PEOPLE'S ASSEMBLY ON SATURDAY WITH A SPEECH THAT WAS NOTABLE FOR ITS MODERATE RHETORIC. HIS HARSHEST CRITICISM OF THE REJECTIONISTS CHARACTERIZED THE RULERS OF LIBYA, SYRIA AND IRAQ AS "ADOLESCENTS" WHO RULE WITH "...STEEL AND FIRE AND GALLOWS." HE SAID THAT EGYPT "WOULD NOT ADOPT A NEGATIVE STAND ON ANY STEP THEY (THE REJECTIONISTS) WANT TO TAKE...IF THEY WANT A GENEVA CONFERENCE, THEN WE WOULD SAY YES. IF THEY WANT THE SOVIET UNION'S PARTICIPATION, THEN WE WOULD SAY YES." SADAT, IN EFFECT, CHALLENGED THE REJECTIONISTS TO PRESENT A PROGRAM TO END THE MIDDLE EAST CONFLICT, BUT HE WENT ON TO PREDICT THAT THEY WOULD

-.-EVADE...THE CONFRONTATION...." THE EGYPTIAN PRESIDENT PRAISED THE OPPOSITION FOR PROVIDING A "COUNTEROPINION" IN BUILDING DEMOCRACY, AND LAUDED THE ROLE OF THE PRESS. HE DID, HOWEVER, SPEAK OF "SETTLING ACCOUNTS" WITH THOSE WRITERS WHO PUBLISH CRITICISMS OF EGYPT IN THE FOREIGN MEDIA IN A BILL TO BE PRESENTED TO THE ASSEMBLY IN AUGUST. SADAT ALSO SAID THAT HE PLANS TO MEET SOON WITH BEGIN. EMBASSY CAIRO COMMENTS THAT, SIGNIFICANTLY, SADAT DID NOT ATTACK SAUDI ARABIA OR THE GULF STATES.

9. (C) ISRAEL-EGYPT: A SENIOR IDF LIAISON OFFICER TOLD THE SINAI FIELD MISSION THAT ONE OF TWO ISRAELI DIVISIONS IN THE SOUTHERN COMMAND IS BEING PULLED OUT OF THE SINAI AND PROBABLY WOULD BE REDEPLOYED IN THE JORDAN VALLEY "WHERE IT IS NEEDED."

10. (U) THE MIDDLE EAST NEWS AGENCY ON JUNE 21 QUOTED AN OFFICIAL EGYPTIAN FOREIGN MINISTRY SOURCE AS SAYING THAT THE ISRAELI DECISION TO SET UP A REGIONAL COUNCIL OF ISRAELI GOLAN SETTLEMENTS WAS "A NEW PROOF OF CONTINUED ISRAELI VIOLATION OF THE PRINCIPLES OF INTERNATIONAL LAW." THE SOURCE ALSO SAID THAT THE ISRAELI MEASURE IS CONTRARY TO THE CAMP DAVID ACCORDS AND A "CONTINUATION OF ATTEMPTS TO PLACE OBSTACLES ON THE ROAD OF A COMPREHENSIVE AND JUST SETTLEMENT."

11. (U) WEST BANK: THE JERUSALEM POST ON JUNE 20 REPORTED THAT THE ISRAELI MILITARY GOVERNMENT PREVENTED THE SCHEDULED JUNE 19 MEETING CALLED BY HEBRON MAYOR QAWASIMA TO PROTEST THE ISRAELI SIT-IN IN THE HADASSAH BUILDING. ABOUT 200 HEBRON NOTABLES WERE STOPPED AT ROADBLOCKS WHILE TRYING TO GET TO THE MEETING. ACCORDING TO THE POST, QAWASIMA HAD BEEN WARNED THAT THE MEETING WOULD BE BANNED, BUT WENT AHEAD ANYWAY. QAWASIMA ALSO STATED THAT TRAVEL RESTRICTIONS ON HIM, WHICH INCLUDED A REFUSAL OF PERMISSION TO TRAVEL TO THE US, WERE RECONFIRMED BY ISRAELI AUTHORITIES.

12. (C) EAST JERUSALEM LAWYER ELIAS KHOURY WAS PLEASED BY THE ISRAELI SUPREME COURT INJUNCTION FREEZING DEVELOPMENT OF ELON MOREH, WHICH HE DID NOT EXPECT. HE SAID THAT, SINCE THERE IS NO ELECTRICITY NOR SEWERS AT THE SITE, IT WILL BE DIFFICULT FOR THE SETTLERS TO STAY ON FOR LONG. THE COURT IS DUE TO ADJOURN FOR THE SUMMER ON JULY 15 AND HE BELIEVES IT UNLIKELY THE CASE WILL BE HEARD BEFORE SEPTEMBER. WHEN THE CASE IS HEARD, KHOURY INTENDS TO BASE HIS ARGUMENT AGAINST THE SETTLEMENT ON THE SECURITY

ISSUE, AND IS OBTAINING OPINIONS FROM SOME IN THE ISRAELI MILITARY WHICH CONTRADICT THE GOVERNMENT'S CLAIMS. HE DOES, HOWEVER, BELIEVE THAT IN THE END THE COURT IS LIKELY TO ACCEPT THE SECURITY ARGUMENTS OF THE GOVERNMENT.

13. (U) ISRAEL: THE ISRAELI CABINET DECIDED ON SUNDAY TO RELEASE DEFENSE MINISTER WEIZMAN FROM SERVING ON THE AUTONOMY NEGOTIATING COMMITTEE. WEIZMAN WILL REMAIN AVAILABLE FOR CONSULTATIONS WITH THE COMMITTEE ON SECURITY MATTERS, AND GENERAL TAMIR, HIS ADVISOR ON NATIONAL SECURITY AFFAIRS, WILL REMAIN A MEMBER OF THE DELEGATION. REUTER REPORTS THAT WEIZMAN LEFT THE COMMITTEE BECAUSE OF HIS STRONG DISSATISFACTION WITH BEGIN'S AUTONOMY POLICY. IT APPEARS, HOWEVER, THAT THE TWO HAVE MOVED BACK FROM THE CONFRONTATION THAT OCCURRED BETWEEN THEM OVER ELON MOREH LAST WEEK.

14. (U) REUTERS REPORTED ON JUNE 24 THAT FOREIGN MINISTER DAYAN UNDERWENT SUCCESSFUL SURGERY TO REMOVE A POLYP FROM HIS INTENSTINAL TRACT. HE IS EXPECTED TO LEAVE THE HOSPITAL WITHIN THE NEXT 10 DAYS.

15. (U) ACCORDING TOPRESSREPORTS, A BOMB EXPLODED INSIDE A VAN AT TEL AVIV'S BUS STATION ON JUNE 24, KILLING TWO ARABS RIDING IN THE VEHICLE. ISRAELI POLICE SOURCES SAID THE TWO WERE APPARENTLY ON THEIR WAY TO PLANT THE BOMB WHEN IT EXPLODED PREMATURELY. THE PLO CLAIMED RESPONSIBILITY FOR THE BOMBING.

16. (U) THE NEW CHINA NEWS AGENCY REPORTED ON JUNE 23 THAT PREMIER HUA KUO-FEND HAS RULED OUT ANY POSSIBILITY OF CHINA OPENING RELATIONS WITH ISRAEL, WHICH HE CLAIMED "HAS INVADED THE TERRITORIES OF ARAB COUNTRIES AND REFUSED TO RECOGNIZE THE SACRED NATIONAL RIGHTS OF PALESTINE."

BT
#4317

NNNNVV ESA229BRA541
PP RUQMHR
DE RUEHC #4318/03 1770417
ZNY CCCCC ZZH
P 260108Z JUN 79
FM SECSTATE WASHDC
TO RUQMZN/USMISSION SINAI PRIORITY 9407
INFO INTSUM COLLECTIVE PRIORITY
RUEATRS/ TREASURY DEPARTMENT WASHDC PRIORITY 2358
RUEKJCS/DOD/ISA PRIORITY
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26 JUN 79 04 48Z

C O N F I D E N T I A L FINAL SECTION OF 03 STATE 164318/03

17. (U) CANADA-ISRAEL: ON JUNE 23, PRIME MINISTER CLARK INDICATED THAT HIS CONTROVERSIAL PLAN TO SHIFT THE CANADIAN EMBASSY IN ISRAEL TO JERUSALEM WOULD REMAIN ON THE SHELF UNTIL NEXT YEAR. CLARK ALSO SAIDTHAT HE HAS SET UP A FACT-FINDING PANEL TO STUDY THE MOVE.

18. (U) LEBANON: RADIO BEIRUT REPORTED THAT ISRAELI WARPLANES ATTACKED TWO TARGETS IN SOUTHERN LEBANON ON JUNE 24. ONE GROUP ATTACKED THE AQIBIYEH AREA (9 MILES SOUTH OF SIDON) NEAR THE AL-BEYSARIGEH REFUGEE CAMPS. PALESTINIAN SOURCES CLAIMED SEVERAL HOUSES AND 20 SHOPS

WERE DESTROYED AND APPROXIMATELY 25 PEOPLE WERE KILLED OR WOUNDED. ANOTHER GROUP OF PLANES STRUCK VILLAGES NEAR THE PORT CITY OF TYRE.

19. (C) SOURCES OF OUR DEFENSE ATTACHE IN BEIRUT HAVE CONFIRMED THAT TWO FIJIAN UNIFIL MEMBERS WERE WOUNDED JUNE 19 IN AN EXCHANGE OF FIRE WITH PALESTINIANS SOUTH OF TYRE.

20. (C) DURING RECENT CONVERSATIONS WITH EMBASSY BEIRUT, THE GOVERNOR OF SOUTH LEBANON CLAIMED THAT THE RESUMPTION OF GOVERNMENT SERVICES TO THE REGION HAS SO FAR BEEN SUCCESSFUL. WATER, ELECTRICITY, AND TELEPHONE SYSTEMS ARE WORKING IN TYRE, FOR EXAMPLE, AND REPAIRS TO THE LINES DELIVERING POWER SOUTH OF THE CITY ARE ALMOST COMPLETE.

21. (C) EMBASSY BEIRUT REPORTED ON JUNE 22 THAT A CEASE-FIRE BETWEEN LEBANESE ARMY (LAF) AND SYRIAN (ADF) FORCES IN THE AQURAH AREA CONTINUED TO HOLD. THE LAF AND ADF HAVE REPORTEDLY AGREED TO THE FOLLOWING MEASURES TO DEFUSE THE SITUATION:

(A) THE LAF WILL REINFORCE ITS UNITS IN THE AREA;

(B) THE ADF WILL PULL BACK FROM THE AQURAH AND AFQA AREAS; AND

(C) LEBANESE AUTHORITIES WILL COMPLETE THE ROAD WHICH THE ADF WAS BUILDING.

THE FIGHTING BEGAN WHEN THE LAF FIRED ON ADF UNITS WORKING ON THE ROAD, WHICH PURPORTEDLY IS INTENDED TO LINK SHIA VILLAGES, BUT ALSO GIVES THE ADF MUCH EASIER ACCESS TO THE TRADITIONAL CHRISTIAN REGION OF LEBANON.

22. (C) SYRIA: COMMENTING ON THE SYRIAN GOVERNMENT ANNOUNCEMENT OF THE MURDER OF OVER 50 ALAWITE CADETS, EMBASSY DAMASCUS NOTES THAT THE GOVERNMENT HAS PINNED THE BLAME ON THE MUSLIM BROTHERHOOD AND "IMPERIALISTS" INSTEAD OF THE YOUTH OF MUHAMMAD (YOM), WHICH IS WIDELY CREDITED WITH BEING RESPONSIBLE FOR THE RECENT UPSURGE IN TERRORISM. AN EMBASSY SOURCE SAYS THAT THE BROTHERHOOD (WHICH HAS MUCH MORE SUPPORT AMONG SUNNIS THAN THE YOM) WAS CHOSEN DELIBERATELY, IF RELUCTANTLY, BY ASSAD BECAUSE HE MUST PLACATE ALAWITE PRESSURE FOR A VERY TOUGH RESPONSE TO KILLINGS BY SUNNIS. THE GOVERNMENT IS LIKELY TO

EMPLOY HEAVY HANDED AND REPRESSIVE TACTICS IN SEARCHING FOR THE MURDERERS AND, IF A CAMPAIGN AGAINST THE BROTHERHOOD IS EARNESTLY PURSUED, RUNS THE RISK OF ONLY EXACERBATING THE ALREADY SERIOUS INTERCOMMUNAL STRIFE BETWEEN ALAWITES AND SUNNIS.

23. (U) ARAFAT-SOVIET UNION: THE KUWAITI NEWSPAPER AL-QABAS, CITING "WELL-INFORMED PALESTINIAN SOURCES, CLAIMED ON JUNE 23 THAT PLO LEADER ARAFAT WILL VISIT MOSCOW IN JULY AS PART OF A TOUR OF EASTERN EUROPEAN COUNTRIES.

24. (U) WEST GERMANY-MIDDLE EAST: CHANCELLOR HELMUT SCHMIDT WAS CITED BY THE JERUSALEM POST ON JUNE 22 AS SAYING HE THOUGHT A NEW WAR IN THE MIDDLE EAST WAS "MORE THAN LIKELY" AND WARNING ISRAEL THAT IT MIGHT LOSE ITS FRIENDS AS A RESULT OF ITS CURRENT SETTLEMENT POLICY ON THE WEST BANK. "IF ISRAEL GOES ON WITH ITS PRESENT POLITICAL COURSE," HE REPORTEDLY SAID, "IT WILL BE DIFFICULT TO REMAIN A FRIEND." (IT HAS BEEN REPORTED EARLIER THAT GERMAN FOREIGN MINISTER GENSCHER WILL VISIT SEVERAL ARAB STATES LATER THIS SUMMER.) CHRISTOPHER
BT
#4318

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TO RUEHAL/AMCONSUL ALEXANDRIA IMMEDIATE 2167
INFO ALL NEAR EASTERN AND SOUTH ASIAN DIPLOMATIC POSTS IMMEDIATE
BT
C O N F I D E N T I A L STATE 172704

ALEXANDRIA PASS USMEDEL STRAUSS

FOLLOWING SENT ACTION SECSTATE INFO BAGHDAD DHAHRAN JERUSALEM MOGADISCIO RIYADH KUWAIT JULY 1

QUOTE

C O N F I D E N T I A L JIDDA 4865

DEPT. PLEASE PASS TO NEAR EAST AND SOUTH ASIAN POSTS

E.O. 12065: GDS 7/1/85 (BOVIS H EUGENE) OR-P
TAGS: PEPR SA US
SUBJ: (U) KING KHALID'S JUNE 30 INTERVIEW WITH KUWAITI NEWSPAPER AL-SIYASSAH

1. (U) PORTIONS OF KING KHALID'S INTERVIEW JUNE 30 WITH KUWAITI NEWSPAPER AL-SIYASSAH WERE PROMINENTLY FEATURED ON FRONT PAGES OF SAUDI NEWSPAPERS JULY 1, BOTH ENGLISH AND ARABIC. MOST OF THEM STESSED STATEMENTS ON GULF SECURITY AND RELATIONS WITH UNITED STATES. ON GULF SECURITY, SAUDI GAZETTE QUOTED HIM AS SAYING: "WE BELIEVE THAT ANY INTERFERENCE IN THE REGION WILL NEVER ACHIEVE THE AIMS THAT PROMT IT. INF ACT, IT WILL ACHIEVE PRECISELY THE OPPOSITE. IT IS THE PEOPLE OF THE REGION ALONE WHO SHOULD BE RESPONSIBLE FOR PROTECTING THE REGION, AND THE R PEACE-LOVING POWERS SHOULD ENCOURAGE THEM IN THAT RESPONSIBILITY."

2. (U) ON US RELATIONS AND THE EGYPTIAN-ISRAELI TREATY. SAUDI GAZETTE REPORTS THAT THE KING ASSERTED THAT, WHATEVER HAD BEEN SAID ABOUT SAUDI DISAGREEMNTS WITH THE US OVER THE EGYPT-ISRAEL TREATY, "ELATIONS BETWEEN THE KINGOM AND THE US ARE STRONGLY BASED ON MUTUAL COOPERATION IN DIFFERENT FIELDS. THE DIFFERENCES OVER THE TREATY DO NOT AFFECT THE CONTINUITY OF FRIENDSHIP WITH THE UNITED STATES." HE IS REPORTED TO HAVE GONE ON TO SAY: "OUR STAND COMES FROM THE BELIEF THAT THERE CAN BE NO COMPREHENSIVE PEACE IN THE REGION UNTIL ARAB RIGHTS AND LAND ARE COMPLETELY RESTORED. THE KINGDOM'S STAND IS GETTING INCREASED SUP-

PORT IN AMERICA, BUT IN ANY CASE, THE FACT THAT WE HAVE DIFFERENT VIEWS ON THIS ONE SUBJECT DOES NOT AFFECT OUR FRIENDSHIP."

3. (C) COMMENT: KHALID'S STATEMENTS ON THE PEACE TREATY AND US RELATIONS ARE CONSISTENT WITH ATTEMPT BY SAG TO KEEP MIDDLE EAST PEACE PROBLEMS SEPARATE FROM SAUDI-US BILATERAL RELATIONS AND TO PRESERVE AS GOOD BILATERIAL RELATIONS AS POSSIBLE. REMARKS ON GULF SECURITY ARE CONSISTENT WITH SAUDI STAND THAT BEST WAY TO ASSURE GULF SECURITY IS THROUGH STRENGTHENING DEFENSES OF GULF COUNTRIES, RATHER THAN THROUGH PRESENCE OF US BASES IN AREA. WE DOUBT, HOWEVER, THAT KHALID MEANT TO SAY THAT US INTERVENTION COULD BE UNWELCOME IN CASES OF DIRECT ATTACK BY USSR OR SOVIET-BACKED SURROGATE. SAUDI OFFICIALS HAVE BEEN FRANK TO TELL US QUIETLY BUT OFFICIALLY THAT THEY EXPECT DIRECT US INVOLVEMENT IN THAT EVENT. WEST

UNQUOTE CHRISTOPHER
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* U.S. GOVERNMENT PRINTING OFFICE: 1977—225-323

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S E C R E T SECTION 01 OF 03 STATE 173894/01

E.O. 12065 GDS 7/5/85 (GRIFFIN, PHILIP J.)

TAGS: EG, IS, PINR

SUBJECT: INTSUM 846 - JULY 5, 1979

LONDON FOR GLASPIE
PARIS FOR NICHOLAS MURPHY
DOD/ISA FOR RANSOM
OTHER ADDRESSEES FOR CHIEFS OF MISSION

WARNING NOTICE SENSITIVE SOURCES AND METHODS INVOLVED
NOT RELEASABLE TO FOREIGN NATIONALS

(PARAGRAPHS 1-5 SECRET/NOFORN)

1. SAUDI VIEWS OF THE US-SAUDI SPECIAL RELATIONSHIP: EMBASSY JIDDA RECENTLY OBSERVED THAT THE SAUDIS WANT TO KEEP DIFFERENCES OVER THE PEACE PROCESS SEPARATE FROM US-SAUDI BILATERAL RELATIONS, AND THAT THEY WOULD LIKE THE SPECIAL RELATIONSHIP BETWEEN US TO CONTINUE. THE BASIS OF THIS RELATIONSHIP--OUR NEED FOR OIL AND THE SAUDI NEED FOR SECURITY--WILL CONTINUE TO EXIST, BUT, THE EMBASSY POINTS OUT, ONLY SERIOUS EFFORT ON BOTH SIDES CAN MAKE IT WORK.

2. SADAT'S TRIP TO JERUSALEM, THE CAMP DAVID ACCORDS, AND THE EGYPTIAN-ISRAELI TREATY HAVE PRODUCED SHARP DIFFERENCES BETWEEN THE US AND SAUDI ARABIA IN THE PAST 18 MONTHS. IN ADDITION, THE ENERGY CRUNCH, WORSENED BY THE DECLINE IN IRANIAN OIL PRODUCTION, HAS PLACED INTO CRITICAL FOCUS SAUDI VIEWS AND ACTIONS ON OIL PRODUCTION AND PRICING.

3. THE EFFECT OF THESE DEVELOPMENTS ON US-SAUDI RELATIONS HAS LED EMBASSY JIDDA TO PONDER THE STATUS OF OUR SPECIAL RELATIONSHIP, WHICH IN RECENT YEARS HAS APPLIED TO A WIDE

RANGE OF MATTERS INVOLVING OUR MUTUAL SELF-INTEREST:

(A) SAUDI ARABIA'S MILITARY DEFENSES: THE SAUDIS STILL REGARD THEIR MILITARY RELATIONSHIP WITH THE US AS A MUTUALLY BENEFICIAL PARTNERSHIP WHICH THEY WISH TO MAINTAIN.

(B) COOPERATION IN REGIONAL AFFAIRS: WHILE EVENTS IN THE "ARC OF CRISIS" HAVE FOSTERED SAUDI DOUBTS ABOUT OUR WILLINGNESS TO ASSIST THEM IN AN EMERGENCY, PUBLIC COMMITMENTS TO THEIR SECURITY AND OUR RESPONSES TO THEIR PLEAS FOR ASSISTANCE TO NORTH YEMEN DURING THE YEMEN WAR RENEWED SAUDI CONFIDENCE IN THE US AS A SOURCE OF STRENGTH.

(C) US-SAUDI COOPERATION IN THE KINGDOM'S ECONOMIC DEVELOPMENT: IN SPITE OF DISINCENTIVES CREATED BY US POLICIES WHICH DISCOURAGE PARTICIPATION OF US FIRMS IN THE SAUDI MARKET, OUR TIES WITH THE SAUDIS CONTINUE TO BE MUTUALLY BENEFICIAL--WE HAVE THE TECHNOLOGY THAT THEY WANT, AND THEY NOW CONSTITUTE OUR SEVENTH LARGEST MARKET.

(D) COORDINATION IN PRODUCTION AND SUPPLY OF OIL: THE SAUDIS HAVE BEEN MIFFED BY CRITICISMS OF THE RISE IN OIL PRICES, FEELING THAT WE HAVE FAILED TO APPRECIATE THEIR ROLE IN INCREASING PRODUCTION TO OFFSET THE IRANIAN SHORTFALL (DURING THE DECEMBER-FEBRUARY PERIOD) AND IN HOLDING DOWN PRICES. IN BALANCING OPEC UNITY AND THEIR OWN CURRENT REVENUE NEEDS, ON THE ONE HAND, AGAINST THEIR RESPONSIBILITIES TO THE WEST AND THEIR SPECIAL RELATIONSHIP WITH THE US ON THE OTHER, THE SAUDIS RECOGNIZE THEY HAVE NEITHER ENOUGH SURPLUS PRODUCTION CAPACITY NOR ENOUGH POLITICAL WILL TO DICTATE TO OPEC. IT IS INCREASINGLY DIFFICULT FOR THE LEADERSHIP TO EXPLAIN TO THE TECHNOCRATS WHY SAUDI OIL PRICE AND PRODUCTION POLICIES ARE NOT ;ORE CONSISTENT WITH THEIR APPARENT ECONOMIC INTERESTS.

(E) COOPERATION ON MIDDLE EAST P:ACE: WHILE THE SAUDIS WANT A COMPREHENSIVE SETTLEMENT ACHIEVED THROUGH PEACEFUL MEANS, THEY SEEK TO PRESERVE ARAB SOLIDARITY OUT OF FEAR T;AT POLARIZATION OF THE ARAB WORLD WILL THREATEN SAUDI SECURITY AND ENLARGE THE SOVIET ROLE IN THE MIDDLE EAST. UNDER THESE CIRCUMSTANCES, THE SPECIAL RELATIONSHIP DOES NOT :XTEND TO SAUDI SUPPORT FOR THE EGYPTIAN-ISRAELI TREATY AS IT NOW STANDS--PARTICULARLY SINCE IT DOES NOT PROVIDE FOR A SOLUTION TO THE JERUSALEM QUESTION.

(F) OTHER MATTERS: SAUDI ARABIA POSSESSES A CONSERVATIVE SOCIETY WHOSE LAW AND CONSTITUTION ARE THE DIVINELY INSPIRED LAWS OF ISLAM. THIS IS SOMETHING QUITE APART

* U.S. GOVERNMENT PRINTING OFFICE 1977—225-525

FROM OUR OWN MATERIALIST, SECULAR AND PLURALIST SOCIETY. THE CONTRAST PERIODICALLY CAUSES US TO COME INTO CONFLICT OVER A VARIETY OF ISSUES, INCLUDING THOSE RELATING TO HUMAN RIGHTS.

4. EMBASSY JIDDA BELIEVES THAT THE SAUDIS STILL WANT TO MAINTAIN THEIR SPECIAL RELATIONSHIP WITH US, BUT THAT THEY WISH TO REDEFINE IT TO LEAVE OUT COOPERATION ON THE MIDDLE EAST PEACE PROCESS. THEY STILL WANT TO WORK WITH US IN ECONOMIC DEVELOPMENT, REGIONAL AFFAIRS, AND BILATERAL MILITARY MATTERS. IN EXCHANGE, THEY HAVE TALKED ABOUT ASSISTING THE US IN THE ENERGY FIELD--OIL FOR SECURITY IS STILL THE ESSENCE OF THE SPECIAL

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S E C R E T SECTION 02 OF 03 STATE 173894/02

RELATIONSHIP.

5. EVEN WITH THIS NEW DEFINITION, HOWEVER, SOME SAUDIS ARE FEARFUL THAT THE SPECIAL RELATIONSHIP WILL NOT WORK. SAUDI ARABIA'S RELATIONS WITH THE OTHER ARAB STATES AND WITH THE OPEC COUNTRIES WILL SUBJECT THE KINGDOM TO PRESSURES AGAINST CONCESSIONS REQUIRED BY THE SPECIAL RELATIONSHIP. SIMILARLY, FAILURE BY THE US PUBLIC TO APPRECIATE THE SAUDI ROLE AT THE JUNE 26-28 OPEC MEETING, US PUBLIC REACTION TO OIL PRICE INCREASES COMING OUT OF THE MEETING, AND CONTINUING US REACTION TO SAUDI RELUCTANCE TO SUPPORT THE EGYPTIAN-ISRAELI TREATY COULD CREATE SERIOUS PROBLEMS FOR THE UNITED STATES IN PURSUING A SPECIAL RELATIONSHIP WITH SAUDI ARABIA.

6. (C) ISRAEL-EXTERNAL DEBT: ACCORDING TO A CIA ANALYSIS ISRAEL'S EXTERNAL DEBT SERVICE BURDEN SHOULD EASE OVER THE NEXT FIVE YEARS EVEN THOUGH INTERNATIONAL BORROWING TO FINANCE SINAI WITHDRAWALS MAY INCREASE. ISRAELI PROJECTIONS INDICATE THAT BY 1983 THE DEBT SERVICE RATIO--FOREIGN INTEREST AND PRINCIPAL PAYMENTS AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES--WILL FALL BELOW 20 PERCENT FOR THE FIRST TIME SINCE THE 1956 WAR. DESPITE THESE TRENDS, ISRAELI OFFICIALS ASSERT THAT THE DEBT BURDEN WILL CAUSE SERIOUS BALANCE-OF-PAYMENTS PROBLEMS OVER THE NEXT FEW YEARS.

7. (C) TO SUPPORT THEIR CLAIM OF LOOMING PROBLEMS, THE OFFICIALS ARE USING A CONCEPT WITH LITTLE ECONOMIC MEANING--PER CAPITA DEBT--INSTEAD OF THE COMMONLY ACCEPTED MEASUREMENT OF THE DEBT SERVICE RATIO WHICH RELATES DEBT SERVICE PAYMENTS TO ABILITY TO PAY. THE ISRAELIS PROBABLY ARE TRYING TO MAKE A WORSE CASE IN ORDER TO OBTAIN BETTER TERMS FOR US ASSISTANCE, WHICH WILL BE UNDER REVIEW SOON.

8. (C) THE DEBT BURDEN IS EASING BECAUSE ISRAELI

EXPORTS OF GOODS AND SERVICES ARE EXPECTED TO INCREASE 13 PERCENT PER YEAR WHILE DEBT SERVICE PAYMENTS ARE PROJECTED TO RISE AT AN AVERAGE ANNUAL RATE OF ONLY ABOUT 7 PERCENT. THE SLOW RATE OF INCREASE IN DEBT SERVICE REFLECTS THE CONCESSIONAL TERMS OF US AID, INCLUDING EXTENDED REPAYMENT TERMS OF UP TO 40 YEARS, 10-YEAR GRACE PERIODS, AND LOW INTEREST RATES. THE US SHARE OF ISRAELI DEBT HAS BEEN STEADILY INCREASING AND IS EXPECTED TO RISE TO 58 PERCENT IN 1983, UP FROM 35 PERCENT IN 1977.

9. (U) ISRAEL-MILITARY: REUTER REPORTED JULY 2 THAT ISRAELI CHIEF OF STAFF EITAN HAD PERSONALLY REDUCED THE SENTENCE OF AN ARMY OFFICER CONVICTED OF MURDERING FOUR ARABS DURING THE ISRAELI INCURSION INTO SOUTH LEBANON TWO YEARS AGO. AN APPEALS COURT HAD UPHELD AN EIGHT YEAR TERM BEFORE THE CHIEF OF STAFF REDUCED THE SENTENCE TO TWO YEARS. KNESSET MEMBER SHULAMIT ALONI CALLED THE CONVICTED OFFICER A WAR CRIMINAL AND SAID THE KNESSET COULD NOT ACCEPT THE CHIEF OF STAFF'S ACTION. THE NEWS REPORT SAID THE ISSUE IS EXPECTED TO BE DEBATED IN THE KNESSET THIS WEEK.

10. (U) USSR-US-MIDDLE EAST: REFERRING TO AMBASSADOR STRAUSS' VISIT TO JORDAN AND SAUDI ARABIA, MOSCOW'S ARABIC "WINDOW ON THE WORLD" PROGRAM OF JULY 2 SAID THE VISIT IS AIMED AT EXPEDITING THE FORMULATION OF THE NEW DEAL AT THE EXPENSE OF THE PALESTINIAN PEOPLE AND...TRYING TO WEAKEN THE CONFRONTATION OF JORDAN AND SAUDI ARABIA WITH THE EGYPTIAN-ISRAELI DEALS. THE BROADCAST SAID 'WASHINGTON IS APPLYING SPECIAL PRESSURE ON RIYADH AND STRIVING...TO EXPLOIT SAUDI ARABIA'S CLOSE RELATIONS WITH THE US. THE PROGRAM ALSO SAID WASHINGTON HAS NOT GIVEN UP THE IDEA OF USING FORCE TO ACHIEVE ITS "IMPERIALISTIC OBJECTIVES."

11. (C) EGYPT-KUWAIT: THE GOVERNOR OF EGYPT'S CENTRAL BANK HAS TOLD SEVERAL EMBASSY CAIRO OFFICERS THAT NO FORMAL OR INFORMAL REQUEST, TO HIS KNOWLEDGE, WAS MADE BY KUWAIT TO THE EGYPTIAN CENTRAL BANK FOR REPATRIATION OF ITS DOLS 935 MILLION ON DEPOSIT. THIS CONTRADICTS EGYPTIAN MINISTER OF ECONOMY AL-SAYEH'S REMARKS SOME WEEKS AGO TO AMBASSADOR HILTS THAT SUCH A REQUEST HAD BEEN RECEIVED. EMBASSY CAIRO COMMENTS THAT KUWAIT'S WITHDRAWAL OF ITS DEPOSITS FROM EGYPT DOES NOT APPEAR TO BE A PRESSING PROBLEM FOR EGYPT.

12. (U) EGYPT-AOI: A MIDDLE EAST NEWS AGENCY REPORT SAYS THAT EGYPT HAS FAILED TO REACH AGREEMENT WITH SAUDI

ARABIA, QATAR AND THE UNITED ARAB EMIRATES ON THE LIQUIDATION OF THE ARAB ORGANIZATION FOR INDUSTRIALIZATION (AOI). THE REPORT SAID THAT IF THE OTHER THREE PARTIES ARE AGREEABLE, EGYPT PLANS TO ASK THE WORLD BANK TO ARBITRATE THE DISPUTE. EGYPT HAD PREVIOUSLY SAID THAT IT WOULD CARRY ON ALONE WITH THE AOI IF THE OTHER PARTNERS BACKED OUT.

13. (C) EGYPT-PETROLEUM: EGYPT IS TAKING ADVANTAGE OF RECENT OPEC PRICE INCREASES AND PRODUCTION SHORTAGES TO GREATLY RAISE THE PRICE OF ITS CRUDE OIL. EGYPT HAS NOTIFIED ITS CUSTOMERS THAT ITS HIGHEST QUALITY BLEND CRUDE WOULD SELL FOR DOLS 32.50 A BARREL IN THE THIRD

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QUARTER, WHILE A LESSER CRUDE WOULD BE PRICED AT DOLS 26.40 PER BARREL- JUNE PRICES FOR THESE CRUDES WERE DOLS 20.;0 AND DOLS 17.62 RESPECTIVELY. THE MAJORITY OF EGYPTIAN CUSTOMERS REPORTEDLY ACCEPTED THE NEW PRICES.

14. (U) SAUDI ARABIA-OIL-TERRORISM: PRESS REPORTS JULY 2 QUOTED THE NEWSWEEK INTERVIEW IN WHICH SAUDI OIL MINISTER YAMANI SAID THE PALESTINIANS COULD SINK A SUPERTANKER IN THE STRAIT OF HORMUZ AND MAKE THE CURRENT OIL CRISIS "SEEM LIKE CHILD'S PLAY." ....THE PALESTINIANS ARE GROWING DESPERATE,' YAMANI SAID, 'AND I WOULDN'T BE SURPRISED IF ONE DAY THEY SANK ONE OR TWO SUPERTANKERS... TO FORCE THE WORLD TO DO SOMETHING ABOUT THEIR PLIGHT AND ISRAEL'S OBSTINACY.;

15. (U) ARAFAT-PRESS CONFERENCE: IN A PRESS CONFERENCE JULY 3, IN BEIRUT YASSER ARAFAT:

(A) ACCUSED ISRAEL OF USING INTERNATIONALLY BANNED WEAPONS AND RENDERING 600,000 LEBANESE AND PALESTINIANS HOMELESS;

(B) ASKED HOW PRESIDENT CARTER COULD SPEAK ABOUT HUMAN RIGHTS AND YET FORGET TH: HUMAN RIGHTS OF LEBANESE AND PALESTINIANS BEING KILLED BY THE "AMERICAN WAR MACHINE;" AND

(C) APPEALED TO THE PRESS AND INTERNATIONAL OPINION TO SPEAK OUT ON "THIS MASSACRE.,

16. (U) PLO-ISLAMIC CONFE,-NCE: REUTER REPORTED JULY 3 THAT AT AN ISLAMIC CONF-R-NCE MEETING IN MOROCCO THE PLO CALLED ON ISLAMIC COUNTRIES TO DEVISE AN ECONOMIC STRATEGY TO FORCE INDUSTRIALIZED NATIONS, PARTICULARLY THE US, TO CHANGE POLICIES TOWARD THE PALESTINIANS. THE STRATEGY SHOULD COVER PETROLEUM, BANK DEPOSITS, TRADE AND INVESTMENT, THE PLO SAID.

17. (LOU) SYRIA-US: AN EDITORIAL JULY 1 IN AL-BAATH, THE ORGAN OF THE SYRIAN BAATH PARTY, GAVE THE FIRST AUTHORITATIVE SYRIAN REACTION TO THE US CALL FOR RESTRAINT FOLLOWING THE JUNE 27 SYRIAN-ISRAELI AIR CLASHES OVER LEBANON. THE EDITORIAL ASKS WHY THE US IS CALLING FOR RESTRAINT AT THIS PARTICULAR TIME, ESPECIALLY IN VIEW OF CONTINUED ISRAELI AIR STRIKES EMPLOYING US MILITARY EQUIPMENT AGAINST LEBANON. THE EDITORIAL CLAIMS THE ONUS IS ON ISRAEL TO EXERCISE RESTRAINT RATHER THAN ON SYRIA WHICH, IT SAYS, HAS BEEN DEFENDING LEBANON AGAINST ISRAEL. THE SYRIANS HAVE NOT OFFICIALLY RESPOND:D TO OUR PROTEST OVER CHARGES OF US LINKS WITH SUBVERSIVE MUSLIM BROTHERHOOD ACTS BUT THE PRESS HAS CARRIED THE STORY THAT ACCORDING TO INFORMED SOURCES IN DAMASCUS, SYRIA REJECTED THE PROTEST.

THE "INFORMED SOURCE, IN THIS CASE IS BELIEVED TO BE FOREIGN MINISTER KHADDAM.

18. (U) LEBANON-GOVERNMENT FORMATION: PRIME MINISTER AL-HUSS HAS STATED THAT HIS NEW CABINET, WHEN FORMED, WOULD SEEK TO CARRY OUT THE PRINCIPLES OF THE BAYT AL-DIN CONFERENCE OF OCTOBER 1978. AL-HUSS INCLUDED AMONG THESE PRINCIPLES THE CONFIRMATION OF LEBANESE UNITY; CONDEMNATION OF COLLABORATION WITH ISRAEL; AND THE BUILDING OF A "NATIONALLY BALANCED ARMY" THAT COULD EVENTUALLY REPLACE THE ARAB DETERRENT FORCES. MEANWHILE, THE COMMAND OF THE RIGHTIST LEBANESE FRONT ISSUED A STATEMENT DECLARING THE REMARKS OF AL-HUSS "WILL NOT HELP IN CLEARING THE WAY FOR LAYING DOWN THE FOUNDATION OF A NEW GOVERNMENT." THE PRINCIPLES MENTIONED BY AL-HUSS WERE CHARACTERIZED AS BEING "OUT OF DATE." CAMILLE CHAMOUN, HOWEVER, DID NOT APPEAR TO WHOLLY ENDORSE THE STATEMENT, CLAIMING THAT HE WOULD TAKE A "WAIT-AND-SEE" ATTITUDE. CHRISTOPHER
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SEMI-COLON ACCIDENTLY REPLACED IT. PLS CORRECT LINE 5
PARA 8 TO READ AS FOLLOWS:

"5 PERCENT. THE SLOW RATE OF INCREASE IN DEBT SERVICE"
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RUDTC/AMEMBASSY LONDON 4-405
2HS/AMEMBASSY CARACAS 209
RUFHRS/AMEMBASSY ALGIERS 7111
RUQMOD/AMEMBASSY DOHA 740
RUKOBT/AMEMBASSY JAKARTA 251
RUQMKW/AMEMASSY KUWAIT 4273
RUEHOS/AMEMBASSY LAGOS 228
RUFHLC/AMEMBASSY LIBREVILLE 47
RUQMAM/AMEMBASSY MANAMA 1483
RUQMMI/AMEMBASSY MUSCAT 670
RUESQI/AMEMBASSY QUITO 72
RUQMHR/AMEMBASSY TEHRAN 2736
RUQMTI/AMEMASSY TRIPOLI 1043
RUFHAU/AMEMBASSY VIENNA 251
RUEHAD/USINT BAGHDAD 3244
RUFHOL/AMEMASSY BONN 644
RUEHME/AMEMBASSY MEXICO CITY 39
RUFNPS/AMEMBASSY PAIS 2048
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C O N F I D E N T I A L JIDDA 4991

E.O. 12065: GDS 7/3/85 (NORRIS, CHESTER) OR-E
TAGS: ENRG, SA
SUBJECT: (U) SAUDI PRODUCTION INCREASE

REF: JIDDA 4917 (NOTAL)

1. (C - ENTIRE TEXT)

8 JUL 79 [illegible]

2. FOLLOWING THE REPORT OF JULY 2 FROM ROYAL COURT SOURCES THAT SAUDI ARABIA WOULD INCREASE PRODUCTION BY AN UNSPECIFIED AMOUNT, ENGLISH-LANGUAGE PAPER "ARAB NEWS" INTERVIEWED DR. ABDUL HADI TAHER, GOVERNOR OF PETROMIN. DR. TAHER STATED THAT THE EXACT SIZE OF THE INCREASE WAS NOT YET FIXED AND WAS TO BE DECIDED BY TECHNICAL CONSIDERATIONS; THE INCREASE WAS TEMPORARY AND DESIGNED TO MET "THE GOVERNMENT'S FINANCIAL REQUIREMENTS"; AND THAT THE EXACT PRODUCION WOULD BE SHARED AMONG PETROMIN AND THE FOUR US OIL COMPANIES THAT ARE THE PARTNERS IN OPEC.

3. COMMENT: DR. TAHER LEFT FOR LONDON EARLY THIS MORNING. WORKING LEVEL OFFICIALS IN THE JIDDA OFFICE OF PETROMIN COULD NOT ADD TO PUBLISHED REPORTS, NOR COULD PRESS OR DIPLOMATIC CONTACTS OF THE EMBASSY. ONE CONTACT SUGGESTED THAT PART OF THE INCREASED PRODUCTION MIGHT BE ALLOCATED TO THE ENTITLEMENTS OR THE
JOINT VENTURE PARTNERS IN THE NEW REFINERY AND PETROCHEMICAL PROJECTS IN JUBAIL AND YENBU, BECAUSE OF THE EMPHASIS ON NATIONAL DEVELOPMENT IN BOTH THE ORIGINAL STATEMENT AND THE TAHER INTERVIEW. HOWE ER, NTHE STATEMENT THAT THE INCREASE IS ONLY TEMPORARY TENDS TO NEGATE THIS THEORY, AND SUGGESTS THAT THESE STATEMENTS ARE INTENDED TO DEFLECT CRITICISM BY OTHER OKEC MEMBERS OF HAVING "SOLD OUT" TO THE U.S.
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S E C R E T
SUBJ: RF-4C DEPLOYMENT TO SAUDI ARABIA (U)
REF: YOUR 071742Z MAY 79

1. (S) USAFE CAN SUPPORT A DEPLOYMENT SUCH AS PROPOSED IN REF MSG CONTINGENT UPON SUFFICIENT LEAD TIME FOR PLANNING AND PROVISION OF FURNDING TO COVER TOTAL COSTS. CRITICAL FUNDING SHORTFALLS WITHIN THIS COMMAND PRECLUDE THE USE OF USAFE FUNDS TO MEET THIS REQUIREMENT, INCLUDING DEPLOYMENT/REDEPLOYMENT COSTS. IT SHOULD BE NOTED THAT DEPLOYMENT OF TWO RF-4S WOULD REQUIRE A SUPPORT PACKAGE OF 40 TO 60 PERSONNEL AND INVOLVE DETAILED ADVANCED PLANNING INCLUDING THE NEED FOR A SITE SURVEY.

2. (S) DEPENDING UPON THE PRECISE GOALS OF THIS DEPLOYMENT, OTHER FORCE SIZES AND COMPOSITIONS MAY PROVE MORE BENEFICIAL. IT IS OUR UNDERSTANDING THAT SOME FORM OF EXERCISE DEPLOYMENT MIGHT BE CONSIDERED AS A MEANS OF SHOWING US INTEREST AND SUPPORT IN SAUDI ARABIA. IF THE CASE, THE BEST APPROACH MIGHT BE TO INCLUDE A RECONNAIZZANCE ELEMENT AS PART OF A LARGER PACKAGE INCLUDING F-4S OR OTHER

PAGE 2 RUSNAAA0246 S E C R E T
FIGHTERS. SUCH A FORCE WOULD PROVIDE A MORE EFFICIENT USE OF SUPPORT ASSETS. ON THE OTHER HAND, IF THE SOLE OBJECTIVE IS TO UPGRADE SAUDI ARABIAN RECONNAISSANCE CAPABILITIES, IT MAY NOT BE NECESSARY TO DEPLOY RF-4S BUT CONCENTRATE ON SOME FORM OF AN ASSISTANCE VISIT DESIGNED TO SURVEY REQUIREMENTS. IN EITHER CASE, THIS DEPLOYMENT SHOULD BE VIEWED AS A FIRST STEP TO IDENTIFY PROBLEM AREAS RATHER THAN A SOLUTION TO UPGRADING SAUDI ARABIAN CAPABILITIES. THE LONGER RANGE GOAL WOULD APPEAR TO REQUIRE SOME FORM OF MAAG EQUIVALENT TEAM PROVIDED FROM CONUS RESOURCES.

DECL 04 MAY 1985.
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RUQMOD/AMEMBASSY DOHA 9975
RUQMKW/AMEMBASSY KUWAIT 7776
RUQMAM/AMEMBASSY MANAMA 5111
RUQMMT/AMEMBASSY MUSCAT 8273
RUQMNS/AMEMBASSY SANA 4857
RUQMHR/AMEMBASSY TEHRAN 3491
INFO RUQMDH/AMCONSUL DHAHRAN 3572
RUSBQD/AMEMBASSY ISLAMABAD 6168
RUQMRA/AMEMBASSY JIDDA 0306
RUQMYA/USLO RIYADH 2514
RUQMDJ/AMEMBASSY DJIBOUTI 3100
RUENAAA/CNO WASHDC
RUEKJCS/ JCS WASHDC 4098
RUEKJCS/ SECDEF WASHDC 4637
RUSNAAA/USCINCEUR VAIHINGEN GE
SECRET
S E C R E T STATE 183729

E.O. 12065: GDS 7/12/85 (BURLEIGH, A. PETER)

TAGS: MARR, SA, US

SUBJECT: P-3 FLIGHTS TO SAUDI ARABIA

1. SECRET - ENTIRE TEXT.

2. FYI: ACTION ADDRESSEES SHOULD BE AWARE THAT THE SAG AND THE USG HAVE AGREED TO COMMENCE- P-3 SURVEILLANCE FLIGHTS IN THE NEAR FUTURE. THE AIRCRAFT WILL USE DHAHRAN AIRFIELD FOR ONE DEPLOYMENT EACH MONTH WHICH WILL LAST 3-5 DAYS. EACH DEPLOYMENT WILL CONSIST OF ONE DIEGO GARCIA TO DHAHRAN, ONE DHAHRAN TO DHAHRAN AND ONE DHAHRAN TO DIEGO GARCIA LEG. SAUDI MILITARY OFFICERS WILL PARTICIPATE IN THE DHAHRAN TO DHAHRAN LEG OF THE DEPLOYMENT AND THE SAG WILL HAVE ACCESS TO THE INFORMATION GATHERED.

3. THE PURPOSE OF THE DEPLOYMENT IS TO CONDUCT MARITIME SURVEILLANCE OF THE ARABIAN SEA, GULF OF OMAN, PERSIAN GULF, GULF OF ADEN AND THE RED SEA. END FYI.
CHRISTOPHER
BT
#3729

10 JUL 79 07 30Z

NNNNVV [illegible]
PP RUQMHR
DE RUSNAAA #0246 1901230
ZNY SSSSS
P 091116Z JUL 79
FM USCINCEUR VAIHINGEN GE//ECJ3-JRC//
TO RUQMHR/CH USMTM TEHRAN IRAN
RUQMBA/AMEMBASSY JIDDA SAUDI ARABIA
O P 071742Z MAY 79
FM HQ USAFE RAMSTEIN AB GE//DO I//
TO USCINCEUR VAIHINGEN GE//ECJ3 JRC//
BT

S E C R E T

SUBJ: RF-4C DEPLOYMENT TO SAUDI ARABIA (U)
REF: YOUR 071742Z MAY 79

1. (S) USAFE CAN SUPPORT A DEPLOYMENT SUCH AS PROPOSED IN REF MSG CONTINGENT UPON SUFFICIENT LEAD TIME FOR PLANNING AND PROVISION OF FUNDING TO COVER TOTAL COSTS. CRITICAL FUNDING SHORTFALLS WITHIN THIS COMMAND PRECLUDE THE USE OF USAFE FUNDS TO MEET THIS REQUIREMENT, INCLUDING DEPLOYMENT/REDEPLOYMENT COSTS. IT SHOULD BE NOTED THAT DEPLOYMENT OF TWO RF-4S WOULD REQUIRE A SUPPORT PACKAGE OF 40 TO 60 PERSONNEL AND INVOLVE DETAILED ADVANCED PLANNING INCLUDING THE NEED FOR A SITE SURVEY.

2. (S) DEPENDING UPON THE PRECISE GOALS OF THIS DEPLOYMENT, OTHER FORCE SIZES AND COMPOSITIONS MAY PROVE MORE BENEFICIAL. IT IS OUR UNDERSTANDING THAT SOME FORM OF EXERCISE DEPLOYMENT MIGHT BE CONSIDERED AS A MEANS OF SHOWING US INTEREST AND SUPPORT IN SAUDI ARABI THE CASE, THE BEST APPROACH MIGHT BE TO INCLUDE A RECONNAIZZANCE ELEMENT AS PART OF A LARGER PACKAGE INCLUDING F-4S OR OTHE

PAGE 2 RUSNAAA0246 S E C R E T

FIGHTERS. SUCH A FORCE WOULD PROVIDE A MORE EFFICIENT USE OF SUPPORT ASSETS. ON THE OTHER HAND, IF THE SOLE OBJECTIVE IS TO UPGRADE SAUDI ARABIAN RECONNAISSANCE CAPABILITIES, IT MAY NOT BE NECESSARY TO DEPLOY RF-4S BUT CONCENTRATE ON SOME FORM OF AN ASSISTANCE VISIT DESIGNED TO SURVEY REQUIREMENTS. IN EITHER CASE, THIS DEPLOYMENT SHOULD BE VIEWED AS A FIRST STEP TO IDENTIFY PROBLEM AREAS RATHER THAN A SOLUTION TO UPGRADING SAUDI ARABIAN CAPABILITIES. THE LONGER RANGE GOAL WOULD APPEAR TO REQUIRE SOME FORM OF MAAG EQUIVALENT TEAM PROVIDED FROM CONUS RESOURCES.

DECL 04 MAY 1985.
BT
#0246

16 JUL 79 02 12Z

NNVV ESB027BRA049
RUQMHR
RUEHC #3729 1961535
SSSSS ZZH
151500Z JUL 79
SECSTATE WASHDC
RUQMBI/AMEMBASSY ABU DHABI 4546
QMOD/AMEMBASSY DOHA 9975
QMKW/AMEMBASSY KUWAIT 7776
QMAM/AMEMBASSY MANAMA 5111
QMMT/AMEMBASSY MUSCAT 8273
QMNS/AMEMBASSY SANA 4857
QMHR/AMEMBASSY TEHRAN 3491
FO RUQMDH/AMCONSUL DHAHRAN 3572
SBOD/AMEMBASSY ISLAMABAD 6168
QMRA/AMEMBASSY JIDDA 0306
QMYA/USLO RIYADH 2514
QMDJ/AMEMBASSY DJIBOUTI 3100
ENAAA/CNO WASHDC
RKJCS/ JCS WASHDC 4098
RKJCS/ SECDEF WASHDC 4637
SNAAA/USCINCEUR VAIHINGEN GE

E C R E T STATE 183729

. 12065: GDS 7/12/85 (BURLEIGH, A. PETER)

GS: MARR, SA, US

EJECT: P-3 FLIGHTS TO SAUDI ARABIA

SECRET - ENTIRE TEXT.

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ND THE USG HAVE AGREED TO COMMENCE- P-3 SURVEILLANCE
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E SAG WILL HAVE ACCESS TO THE INFORMATION GATHERED.

. THE PURPOSE OF THE DEPLOYMENT IS TO CONDUCT MARITIME
RVEILLANCE OF THE ARABIAN SEA,-GULF OF OMAN, PERSIAN
LF, GULF OF ADEN AND THE RED SEA. END FYI.
RISTOPHER

729

NNNNVV ESA924RAA351
RR RUQMHR
DE RUQMRA #5266 1980855
ZNY CCCCC ZZH
R 170831Z JUL 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 6754
INFO RUQMKW/AMEMBASSY KUWAIT 4276
RUQMBI/AMEMBASSY ABU DHABI 1734
RUQMHR/AMEMBASSY TEHRAN 2742
RUQMTI/AMEMBASSY TRIPOLI 1045
RUFHRS/AMEMBASSY ALGIERS 7112
RUEHOS/AMEMASSY LAGOS 229
RUQMYA/USLO RIYADH 3818
RUQMDH/AMCONSUL DHAHRAN 2753
BT
C O N F I D E N T I A L JIDDA 5266

17 Jul 79

E.O. 12065: GDS 7/16/85 (SALOOM, JOSEPH) OR-E
TAGS: EFIN
SUBJECT: CONGRESSIONAL HEARINGS ON OPEC INVESTMENT IN THE US

REF: STATE 180653 (NOTAL)

1. (C - ENTIRE TEXT)

2. ECONOFF PASSED INFO IN PARAS 1-4 OF REFTEL TO DEPUTY MINISTE OF FOREIGN AFFAIRS( IN CHARGE OF ECONOMIC AND PETROLEUM MATTERS), SHEIKH ABDULLAH ALIREZA ON JULY 16.

3. ALIREZA'S REACTION TO HEARINGS WAS NOT OUT OF CHARACTER. HE CYNICALLY DISMISSED THE PROCEEDINGS AS "YOUR (I.E. THE USG'S) PROBLEM" AND SAID THAT IF THE US DIDN'T WANT SAUDI INVESTMENT, ALL IT HAD TO DO WAS SAY SO. THE SAG WAS NOT FORCING ITS INVESTMENTS ON THE US AND HAD MANY ALTERNATIVES FOR PLACING SURPLUS FUNDS.

4. COMMENT: THE FACT THAT ALIREZA ASKED WHETHER WE HAD AN ARABIC TEXT OF THE SUBSTANCE OF PARAS 1-4 OF REFTEL MAY INDICATE SOMEWHAT MORE SERIOUS CONCERN THAN OPENLY EXPRESSED.
WEST
BT
#5266

IAGPVV ESA185BRA878 19 Jul 79 05 06Z

PP RUQMHR
DE RUEHC #6174 2000455
ZNY CCCCC ZZH
P 182358Z JUL 79
FM SECSTATE WASHDC
TO RUQMRA/AMEMBASSY JIDDA PRIORITY 0337
INFO RUQMKW/AMEMBASSY KUWAIT PRIORITY 7787
RUQMBI/AMEMBASSY ABU DHABI PRIORITY 4561
RUSBQD/AMEMBASSY ISLAMABAD PRIORITY 6193
RUQMMI/AMEMBASSY MUSCAT PRIORITY 8277
RUSBAE/AMEMBASSY NEW DELHI PRIORITY 9821O
RUQMHR/AMEMBASSY TEHRAN PRIORITY 3531
RUEHAD/USINT BAGHDAD PRIORITY 1598
BT
C O N F I D E N T I A L STATE 186174

Poc
Chg
Econ
Pol
Chron

E.O. 12065 GDS - 7/18/85 (TWINAM, JOSEPH)

TAGS: MILI, SA, US

SUBJECT: SAUDI ATTITUDE TOWARD US MILITARY PRESENCE

1. DURING JULY 17 LUNCHEON WITH SAUNDERS AND TWINAM, SAUDI AMBASSADOR ALHEGELAN VOLUNTEERED FOR THE SECOND TIME IN OUR CONTACTS WITH HIM SINCE HIS ARRIVAL A FAIRLY POINTED CRITICISM OF US MILITARY PRESENCE IN THE PERSIAN GULF/ ARABIAN PENINSULA REGION. HIS THEME WAS THAT IN THE ABSENCE OF MIDDLE EAST PEACE, ANY INCREASE IN US MILITARY PRESENCE WOULD BE UNSETTLING IN THE REGION AND THAT IF PEACE IS ACHIEVED IT WOULD BE UNNECESSARY.

2. SINCE HIS ARRIVAL ALHEGELAN HAS STRUCK US AS BOTH ARTICULATE AND EXTREMELY WELL BRIEFED BY SAUDI AMBASSADORIAL STANDARDS. HIS LINE ON MILITARY PRESENCE IS A VARIATION ON THAT WHICH PRINCE SAUD TOOK IN THE PREPARATORY COMMITTEE MEETING FEBRUARY 18IN RIYADH WHEN BOB MURRAY AND COMPANY RETURNED TO RIYADH IN THE COURSE OF SECRETARY BROWN'S VISIT TO THE AREA.

3. FOR AMBASSADOR WEST: IT WOULD BE HELPFUL TO HAVE YOUR VIEW, WITHOUT YOUR MAKING-APPROACH TO SAG, AS TO EXTENT ALHEGELAN'S COMMENTS REFLECT OFFICIAL SAG POSITION OR WHETHER HE IS SIMPLY FREE-WHEELING AGAINST THE BACKGROUND OF PUBLICLY EXPRESSED CONCERN IN THE GULF ABOUT RUMORS OF US BUILDUP OF CAPABILITY TO INTERVENE MILITARILY IN THE REGION. IN 1974-75 NEGOTIATIONS TO RETAIN US NAVY IN BAHRAIN, SAUDI SUPPORT WITH GOVERNMENT OF BAHRAIN FOR MIDDLE EAST FORCE PRESENCE WAS AN IMPORTANT FACTOR IN EVENTUAL BAHRAINI DECISION TO LET US RETAIN FACILITIES. WE WOULD BE PARTICULARLY INTERESTED IN YOUR ASSESSMENT OF WHETHER SAG WOULD SUPPORT, OR AT LEAST RAISE NO OBJECTION, TO AN INCREASE IN THE MIDDLE EAST FORCE PRESENCE. VANCE
BT
#6174

NNNNCIMAVV ESA574RAA840
RR RUQMHR
DE RUQMRA #5389 2031145
ZNY CCCCC ZZH
R 221130Z JUL 79 22 Jul 79 14 17z
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 6804
INFO RUQMBI/AMEMBASSY ABU DHABI 1742
RUEHAD/USINT BAGHDAD 3252
RUSBQD/AMEMBASSY ISLAMABAD 458
RUQMKW/AMEMBASSY KUWAIT 4285
RUQMMT/AMEMASSY MUSCAT 672
RUSBAE/AMEMBASSY NEW DELHI 476
RUQMHR/AMEMBASSY TEHRAN 2747
BT
C O N F I D E N T I A L JIDDA 5389

E.O. 12065: GDS 7/22/85 (WEST, JOHN) OR-M
TAGS: MILI, SA, US
SUBJECT: (U) SAUDI ATTITUDE TOWARD U.S. MILITARY PRESENCE

REF: STATE 186174

1. (C - ENTIRE TEXT)

2. I HAVE TWO COMMENTS TO MAKE ON AMBASSADOR HUJAYLAN'S REMARKS AT LUNCHEON WITH SAUNDERS AND TWINAM. FIRST, I THINK THE SAUDIS WANT US SECURITY BUT WITH LOW US VISIBILITY. IF AND WHEN SAUDI ARABIA IS ATTACHED BY THE USSR, THEY WOULD EXPECT US TO BE THERE EVEN IF IT MEANT DIRECT INTERMENTION AND DIRECT US PRESENCE. SIMILARLITY IF ATTACKED BY USSR SURROGATE, THEY WOULD WANT US TO COME TO THEIR ASSISTANCE IN THE FORCE AND MANNER REQUIRED BY THE SITUATION. SHORT OF THAT, HOWEVER, THEY DO NOT WANT A DIRECT US MILITARY PRESNECE IN SAUDI ARABIA OR IN THE IMMEDIATE AREA. IF THERE HAS TO B AN AMERICAN BASE OR PRESENCE, THEY PREFER THAT IT BE SOMEWHERE JUST OVER THE HORIZON SO THAT IT WOULD NOT BE VISIBLE BUT SO THAT IT WOULD BE ABLE TO REACH THE SCENE IN GOOD TIME IN CASE OF NEED. IN THE MEANTIME, THEY WANT US TO CONTINUE TO STRENGTHEN THEIR MILITARY DEFENSES SO THAT THEY CAN HANDLE ANY PURELY LOCAL SITUATION THAT MAY ARISE.

24

. SAUDIS WANT LOW U.S. PRESENCE SO AS NOT TO UPSET
HE NEIGHBORS. A US PRESENCE WOULD CREATE PROBLEMS
OR THEM WITH THE OTHER ARABS, ESPECIALLY IRAQ AND
YRIA, AND FURTHER AFIELD, LIBYA AND ALGERIA. FOR
HIS REASON, SAG SPOLESMEN WILL CONTINUE , ALONG WITH
UWAIT AND THE OTHER FULF STATES, TO SOUND OFF
GAINST ANY PUBLIC SUGGESTION THAT US MAY BE OR SHOULD
E PLANNING FOR INTERNENTION IN THE GULF. THEY WILL
AKE PUBLIC LINE THAT THERE IS NO REAL THREAT AND THAT,
N ANY EVENT, THE STATES OF THE AREA WILL PROTECT
EMSELVES. ACCORDINGLY, WHILE SAUDI ARABIA WILL NOT
UBLICILY SUPPORT INCREASE OF MIDDLE EAST FORCE OPERATING
ROM BAHRAIN, WE DO NOT THINK THEY WILL OBJECT TO IT,
ROVIDED A) GAHRAIN DOES NOT OBJECT, B) INCREASE IS
ODEST C) INCREASE IS MADE DISCREETLY AND WITHOUT
NFARE, AND D) TIMING IS NOT SUCH AS TO COINCIDE WITH
EW ROUND OF PUBLICITY ABOUT US CONTINGENCY PLANS
OR GULF.

MY SECOND COMMENT IS THAT HUJAYLAN IS CLOSER TO
RINCE SAUD THAN TO PRINCE SULTAN. WHILE SULTAN DID FEEL
ONSTRAINED IN INTERVIEWS WITH BEIRUT PRESS OVER LAST
EVERAL DAYS TO SOUND THE PUBLIC LINE, HE TENDS IN
ENERAL TO BE LESS PRONE THAN SAUD TO GET EXCITED ABOUT
CCASIONAL REFERENCES TO POSSIBLITY OF US PRESENCE
N THE AREA. BOTH SAUD AND SULTAN ACCEPT IN PRIVATE
HE NECESSITY FOR US SECURITY SHEILD FOR SAUDI
RABIA AGAINST SOVIETS. HOWEVER, SAUD IS MORE NATIONALIST
N OUTLOOK AND TENDS TO EMPHASIZE NEED FOR LOW US
ISIBILITY MORE THAN SULTAN DOES. HUJAYLAN APPEARS
O BE DOING THE SAME THING AND IN FACT TO BE
PPROACHING THE PUBLIC LINE IN HIS LUNCHEION COMMENTS.
EST

5389

NNN

NNNNVV ESA690BRA738
PP RUQMHR
DE RUEHC #1439/01 2050454
ZNY SSSSS ZZH
P 232334Z JUL 79 24 Jul 79 05 36z
FM SECSTATE WASHDC
TO INTSUM COLLECTIVE PRIORITY
INFO RUEATRS/ TREASURY DEPARTMENT WASHDC PRIORITY 2498
RUEKJCS/DOD/ISA PRIORITY
BT
S E C R E T SECTION 01 OF 02 STATE 191439/01

E.O. 12065: GDS 7/23/85 (ROBERTS, SAMUEL)

TAGS: EG, IS, PINR

SUBJECT: INTSUM 858 - JULY 23, 1979

LONDON FOR GLASPIE
PARIS FOR NICHOLAS MURPHY
DOD/ISA FOR RANSOM
OTHER ADDRESSEES FOR CHIEFS OF MISSION

WARNING NOTICE SENSITIVE SOURCES AND METHOD INVOLVED
NOT RELEASABLE TO FOREIGN NATIONALS

(PARAGRAPHS 1-6 SECRET)

1. SAUDI ARABIA: THE OIL LINKAGE: PSYCHOLOGICAL AND SOCIOLOGICAL FACTORS HELP TO EXPLAIN THE SUTLE LINKAGE BETWEEN THE SAUDIS' OIL PRODUCTION POLICIES AND THEIR EXPECTATIONS OF PROGRESS IN THE MIDDLE EAST PEACE PROCESS:

(A) THE SAUDIS HAVE A DEEPLY INGRAINED AVERSION TO APPEARING TO BE THREATENING; THAT MAKES BLUNT USE OF THE OIL WEAPON, SUCH AS OCCURRED IN 1973, AN EXCEPTION. TO THE SAUDIS, THREATS AND BLACKMAIL DIRECTLY CHALLENGE FUNDAMENTAL BEDOUIN NORMS AND ARE THEREFORE REGARDED AS TACTICALLY COUNTERPRODUCTIVE.

(B) IF A SAUDI WANTS TO INFLUENCE A FRIEND, HE DOES SO IN THE CONTEXT OF RECIPROCITY. IN THE SAUDI SYSTEM, FRIENDS HAVE A MUTUALITY OF OBLIGATIONS THAT OBLIGES ONE TO HELP ANOTHER, BUT ALSO MAKES ONE FEEL FREE TO CALL UPON ANOTHER IN TIME OF NEED. IN THE PROCESS, INFLUENCE IS EXERCISED AND EXPECTATIONS ARE MET WITHOUT CONFRONTATION.

2. THESE FACTORS SUGGEST THAT THE SAUDIS ARE UNLIKELY TO MAKE AN EXPLICIT LINKAGE BETWEEN OIL AND THE PEACE PROCESS. KING KHALID AND CROWN PRINCE FAHD, IN FACT, HAVE SPECIFICALLY DENIED THAT THESE TWO MATTERS ARE INTERCONNECTED. BUT SUCH DENIALS SHOULD NOT BLIND THE US TO THE EXPECTATIONS THAT SAUDIS HOLD.

3. EMBASSY JIDDA HAS RECENTLY REPORTED THAT THE SAUDIS ARE BEGINNING TO REGARD THEIR SPECIAL RELATIONSHIP WITH THE US AS BEING SOMEWHAT UNBALANCED IN THE LATTER'S FAVOR. THE CURRENT SHORTFALL IN WORLD OIL SUPPLIES HAS UNDERLINED FOR SAUDI ARABIA THE ABSOLUTE DEPENDENCE OF THE UNITED STATES AND ITS WESTERN ALLIES ON IMPORTED OIL. IT HAS LED THE SAUDIS TO EXPECT MORE CONSIDERATION AND MORE CONCESSIONS FROM THE US IN RETURN FOR THEIR OIL.

4. SUPPORT FOR THIS ARGUMENT CAN BE FOUND IN:

(A) CROWN PRINCE FAHD'S PUBLIC SUGGESTION IN JUNE THAT THE UNITED STATES START AN IMMEDIATE DIALOGUE WITH THE PLO. "THE SAUDI GOVERNMENT," HE SAID, "WOULD BE MORE THAN PREPARED TO CONTRIBUTE TO THIS TAKING PLACE.,

(B) SHEIK YAMANI'S ASSERTION IN A JULY INTERVIEW THAT IF THE US COULD NOT COMPEL ISRAEL TO WITHDRAW FROM THE OCCUPIED TERRITORIES, IT "MUST BE PREPARED TO FACE THE CONSEQUENCES.... YOU CAN'T EXPECT ARABS TO COOPERATE ON OIL UNLESS THERE ARE POSITIVE INCENTIVES ON THE POLITICAL FRONT."

(C) SAUDI DECISION TO CONDUCT AN INTENSIVE TECHNICAL REVIEW OF OIL PRODUCTION IN AUGUST; WE BELIEVE THAT THIS REVIEW WILL RECOMMEND AGAINST THE PRODUCTION OF ADDITIONAL OIL AFTER SEPTEMBER UNLESS THERE ARE COMPELLING FOREIGN POLICY REASONS TO DO OTHERWISE.

5. IN THIS CONTEXT, EMBASSY JIDDA JUDGES THAT THERE IS A STRONG BUT UNSPOKEN LINK BETWEEN THE RECENT OIL PRODUCTION INCREASE AND SAUDI EXPECTATIONS OF PROGRESS IN THE PEACE PROCESS. WE SHARE THE EMBASSY'S BELIEF THAT IF THERE IS NO PROGRESS IN THE NEXT SIX MONTHS THERE WILL BE EXCEPTIONALLY STRONG PRESSURES WITHIN THE SAUDI HIERARCHY FOR A RETURN TO A PRODUCTION LEVEL OF 8.5 MILLION BARRELS OF OIL A DAY, AS WELL AS FOR ACCOMMODATION TO A UNIFIED AND HIGHER PRICE OF OIL AT THE DECEMBER OPEC MEETING.

6. IN SHORT, WE BELIEVE THAT THE SAUDIS HAVE GIVEN THE US AN INDUCEMENT, RATHER THAN A THREAT, TO ADD MOMENTUM TO THE PEACE PROCESS. THE SAUDIS' PERCEPTION THAT THE US HAD FAILED TO RESPOND TO THIS INDUCEMENT, HOWEVER, WOULD RESULT IN ITS WITHDRAWAL.

(PARAGRAPHS 7-9 UNCLASSIFIED)

7. THREAT TO US SHIPPING: THE US HAS WARNED OIL TANKERS TRANSITTING THE PERSIAN GULF AREA, PARTICULARLY THE STRAIT OF HORMUZ, OF THE POSSIBILITY OF AN ATTACK OR OTHER HOSTILE ACTION AGAINST THEM.

8. THE MAIN SHIPPING CHANNEL THROUGH THE STRAIT, WHICH UTILIZES THE SHORTEST ROUTE AROUND THE MUSANDAM PENINSULA OF NORTHERN OMAN, IS 30 TO 35 KILOMETERS
BT
#1439

NNNNVV ESA691BRA739'
PP RUQMHR
DE RUEHC #1439/02 2050456
ZNY SSSSS ZZH
P 232334Z JUL 79 24 Jul 79 05 37z
FM SECSTATE WASHDC
TO INTSUM COLLECTIVE PRIORITY
INFO RUEATRS/ TREASURY DEPARTMENT WASHDC PRIORITY 2499
RUEKJCS/DOD/ISA PRIORITY
BT
S E C R E T FINAL SECTION OF 02 STATE 191439/02

LONG AND EIGHT TO 13 KILOM-TERS WIDE. THE INBOUND AND OUTBOUND CHANNELS ARE SEPARATED BY A PROHIBITED AREA ABOUT TWO KILOMETERS WIDE. DEPTHS IN THE CHANNEL GENERALLY RANGE FROM 75 METERS TO MORE THAN 200 METERS. THE OUTBOUND CHANNEL IS WIDE ENOUGH AND DEEP ENOUGH TO ENABLE SHIPMENTS TO CONTINUE EVEN IF TWO SUPERTANKERS WERE SUNK IN IT.

9. OUTBOUND TANKERS COULD AVOID ANY DANGER IN THE CHANNEL BY PASSING THROUGH THE BROAD, SHALLOWER PART OF THE STRAIT NORTH AND EAST OF THE QUOIN ISLANDS WHERE DEPTHS RANGE FROM 45 TO 80 METERS, MORE THAN ADEQUATE TO PERMIT PASSAGE OF THE LARGEST SUPERTANKERS.

10. (U) ISRAEL-UN OBSERVERS: THE PROPOSAL TO STATION UN OBSERVERS IN THE SINAI WHEN THE UNEF MANDATE EXPIRES JULY 24 WAS REJECTED AT AN ISRAELI CABINET MEETING JULY 22. ACCORDING TO JERUSALEM RADIO, BEGIN TOOK PART IN THE DECISION. THE ISRAELI POSITION IS THAT THE STATIONING OF THE OBSERVERS CONTRADICTS THE CAMP DAVIL AGREEMENTS, THE RADIO REPORT SAID.

11. (U) BEGIN'S HEALTH: BEGIN WAS REPORTED BY HIS DOCTORS TO BE RESTING COMFORTABLY OVER THE WEEKEND. HE CONTINUES TO RECEIVE VISITORS, INCLUDING GOVERNMENT OFFICIALS. THE APTERIAL BLOCKAGE, WHICH CAUSED DIZZINESS AND VISION PROBLEMS, REPORTEDLY IS BEGIN'S ONLY IMMEDIATE PROBLEM. THERE ARE NO REPORTS OF A RECURRANCE OF HIS HEART TROUBLES OR OTHER HEALTH PROBLEMS.

12. (U) ISRAEL-UN-SETTLEMENTS: JERUSALEM RADIO REPORTED JULY 22 THAT THE ISRAELI CABINET REJECTED THE UN'S RESOLUTION ON SETTLEMENTS, SAYING THE SETTLEM;NTS ARE LEGAL AND THERE IS NO CHANGE IN THE STATUS OF JERUSALEM. THE CABINET ALSO SAID ISRAEL WOULD NOT COOPERATE WITH THE UN SETTL:MENT COMMISSION. (IT DID NOT COOPERATE WITH TH: COMMISSION PREVIOUSLY.)

13. (U) SYRIA-ISRAEL-SANCTIONS: SYRIA'S UN REPRESENTATIVE JULY 20 CALLED ON THE SECURITY COUNCIL TO INVOKE SANCTIONS AGAINST ISRAEL BASED ON THE FINDINGS OF THE UN COMMISSION ON SETTLEMENTS. HE SAID THE COMMISSION'S REPORT WOULD BE MEANINGLESS UNLESS THE UN TOOK ACTION BUT THAT HE WAS AWARE THAT ISRAEL'S "PATRON" WOULD VETO SANCTIONS AGAINST ITS "PROTEGE."

14. (C) EGYPT-ISRAEL-OIL: EGYPTIAN OFFICIALS HAVE TOLD EMBASSY CAIRO THAT, CONTRARY TO EARLIER ASSUMPTIONS, THE ARAB SANCTIONS AGAINST EGYPT ARE CREATING PROBLEMS IN THE SUPPLY OF PETROLEUM PRODUCTS. EGYPT IS BUYING THESE PRODUCTS FROM MEDITERRANEAN COUNTRIES, NOW THAT ARAB COUNTRIES HAVE CUT EGYPT OFF, BUT THESE NEW SUPPLIERS --ITALY, GREECE AND FRANCE--HAVE BEEN RELUCTANT TO SELL TO EGYPT BECAUSE THEY FEAR ARAB RETALIATION, ACCORDING TO THE EGYPTIANS. EGYPT IS RETALIATING BY THREATENING TO CUT OFF CRUDE TO COUNTRIES WHICH WILL NOT SUPPLY REFINED PRODUCTS. EMBASSY CAIRO COMMENTS THAT IF THE ISRAELIS ARE EXPECTING THE ALMA FIELD OUTPUT, THEY MAY BE DISAPPOINTED BECAUSE ALTHOUGH EGYPTIAN PRODUCTION IS INCREASING, EGYPT WILL NEED ALMA OIL FOR ITS OWN GROWING CONSUMPTION. THE EGYPTIANS BELIEVE THE PROBLEM CAN BE SOLVED BY PROVIDING CRUDE FROM OTHER FIELDS (ASSUMING THE ISRAELIS ARE NOT INSISTENT UPON THE TYPE OF CRUDE FROM ALMA.

15. (U) HADDAD-HOSPITALIZED: THE IRAQI NEWS AGENCY JULY 23 REPORTED THAT MAJOR HADDAD, LEADER OF THE CHRISTIAN MILITIA IN SOUTHERN LEBANON, WAS WOUNDED LAST WEEK AND HOSPITALIZED IN ISRAEL. WE HAVE NO INFORMATION TO CONFIRM THE REPORTED WOUNDING BUT ISRAELI MEDIA HAVE SAID THAT HADDAD IS IN A HAIFA HOSPITAL.

16. (C) HADDAD-UNIFIL: CHRISITIAN MILITIA LEADER MAJOR HADDAD JULY 22 REPEATED HIS CLAIMS THAT UNIFIL IS AIDING THE PALESTINIAN GUERRILLAS AND SAID HIS MEN WOULD FIRE ON UNIFIL IF NECESSARY TO PROTECT THEIR POSITIONS. HADDAD'S LATEST REMARKS CONTINUE STEADY CLAIMS BY THE IDF, THE CHRISTIANS AND THE ISRAELI PRESS OF UNIFIL COOPERATION WITH THE GUERRILLAS--ALL OF WHICH ARE DENIED BY UNIFIL. HADDAD'S COMMENTS SINGLED OUT THE IRISH UNIFIL CONTINGENT WITH WHICH HIS MEN HAD A RECENT CONFRONTATION. HADDAD'S MEN HAVE MOVED INTO A VILLAGE CALLED BAYT YAHUN AND, AS OF YESTERDAY, WERE INSISTING THAT THEY WOULD STAY AND SET UP A CHECK POINT. THIS VILLAGE IS IN THE IRISH UNIFIL TERRITORY. WE ALSO NOTE SEVERAL RECENT STORIES IN THE LEBANESE CHRISTIAN AND ISRAELI MEDIA ABOUT SHIAS INJURED OR KILLED BY SYRIAN OR PALESTINIAN GUERRILLA UNITS. THIS MAY SIGNAL A RENEWED CONTEST FOR SHIA SYMPATHIES. SHIAS CAN BE FOUND ON BOTH THE ISRAELI/ CHRISTIAN AND LEFTIST/MUSLIM SIDES OF THE SOUTHERN LEBANON FIGHTING.
CHRISTOPHER
PT
#1439

NNNNVV ESA228BRA002
PP RUQMHR
DE RUEHC #7645/01 2220311
ZNY SSSSS ZZH
P 092130Z AUG 79
FM SECSTATE WASHDC
TO INTSUM COLLECTIVE PRIORITY
INFO RUEATRS/TREASURY DEPARTMENT WASHDC PRIORITY 2614
RUEKJCS/DOD/ISA WASHDC PRIORITY
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S E C R E T SECTION 01 OF 02 STATE 207645/01

POL
CHG
RF
CHRON

E.O. 12065 GDS 8/9/85 (MONTVILLE, JOSEPH V.)

TAGS: EG, IS, PINR

SUBJECT: INTUSM 871- AUGUST 9, 1979

LONDON FOR GLASPIE
PARIS FOR NICHOLAS MURPHY
DOD/ISA FOR RANSOM
OTHER ADDRESSEES FOR CHIEFS OF MISSION

(PARAGRAPHS 1-4 SECRET)

1. SAUDI ARABIA-NORTH YEMEN: SAUDI CONCERNS: SAUDI ARABIA'S LEADERS ARE INCREASINGLY APPREHENSIVE ABOUT THE SITUATION IN NORTH YEMEN, ACCORDING TO A CIA ANALYSIS. THEY PROBABLY ARE PICKING UP RUMORS THAT NORTH YEMENI PRESIDENT SALIH IS ABOUT TO STRIKE A DEAL WITH SOUTH YEMEN IN ORDER TO BOLSTER HIS FALTERING DOMESTIC POSITION.

2. SAUDI OFFICIALS URGED THE US LAST WEEKEND TO GIVE RIYADH GREATER CONTROL OVER US ARMS SE T TO NORTH YEMEN BY SHIPPING SPARE PARTS AND AMMUNITION TO SAUDI ARABIA, WHICH WOULD STORE THEM FOR THE NORTH YEMENIS. THE SAUDIS EXPRESSED CONCERN THAT THE WEAPONS ULTIMATELY COULD BE USED AGAINST THEM IF THERE WERE UNFAVORABLE POLITICAL CHANGES IN NORTH YEMEN.

3. THE SAUDI POLICY TOWARD THE NORTH HAS LONG BEEN AMBIVALENT. THE SAUDIS WANT NORTH YEMEN TO BE STRONG

ENOUGH TO DEFEND ITSELF AGAINST THE SOUTH BUT NOT STRONG ENOUGH TO THREATE; THEM. THE SAUDIS ARE SUSPICIOUS ABOUT NORTH YEMEN'S WILLINGNESS TO ENGAGE IN UNIFICATION TALKS WITH THE SOUTH. THE NORTH YEMENIS FOREIGN MINISTER'S VISITS TO ADEN AND BAGHDAD EARLIER THIS MONTH, AND REPORTS OF RECENT MEETINGS BETWEEN PRESIDENT SALIH AND EXILES CONTROLLED BY ADEN, HAVE PRESUMABLY HEIGHTENED SAUDI FEARS.

4. SAUDI DEFENSE MINISTER SULTAN--THE CENTRAL FIGURE IN DEFINING HIS GOVERNMENT'S POLICY TOWARD THE YEMENS--MAY COOPERATE WITH DISGRUNTLED NORTH YEMENIS TO OUST SALIH IF HE CONCLUDES THAT SALIH IS INDEED GOING TOO FAR IN APPEASING THE SOUTH.

5. (U) EGYPT-NEW UNSC RESOLUTION: THE JERUSALEM POST REPORTS THAT MINISTER OF STATE BUTRUS GHALI IN A PRIVATE BRIEFING GIVEN THE NEWSPAPER BEFORE WINDING UP AUTONOMY TALKS IN HAIFA SAID: "WE WANT A NEW RESOLUTION TO UPDATE 242 NOT REPLACE IT.... ALL EGYPT SEEKS IS THE ESTABLISHMENT OF A PROVISIONAL PALESTINIAN ENTITY IN THE WEST BANK AND GAZA FOLLOWING WHICH THE PALESTINIANS THEMSELVES WILL NEGOTIATE THEIR RIGHT TO SELF-DETERMINATION." BUTRUS GHALI INDICATED THAT THE PRINCIPLES AGREED TO AT CAMP DAIVID MUST BE PASSED ON TO THE SECURITY COUNCIL "WITH THE AIM OF DEVELOPING THEM INTO A FORMULA ACCEPTABLE TO ALL THE PARTIES.... WE WOULD LIKE THAT FORMULA SERVE AS A FALLBACK TO US IF THE CURRENT PROCESS FAILS TO PRODUCE RESULTS. "

EMBASSY CAIRO REPORTS THAT IN A PRESS BACKGROUNDER GIVEN TRAVELING CORRESPONDENTS ON HIS WAY HOME FROM HAIFA, PRIME MINISTER KHALIL INDICATED THAT A NEW SECURITY COUNCIL RESOLUTION WILL ATTEMPT TO ACHIEVE THE FOLLOWING

(A) PALESTINIAN RECOGNITION OF ISRAEL'S RIGHT TO EXIST;

(B) INTERNATIONAL RECOGNITION OF PALESTINIAN POLITICAL RIGHTS;

(C) TERMINATION OF ISRAELI AGGRESSION IN LEBANON; AND

(D) TERMINATION OF PALESTINIAN ATTACKS OR AGGRESSIONS

INSIDE ISRAEL.

6. (U) EGYPT-AUTONOMY NEGOTIATIONS: CAIRO RADIO REPORTED AUGUST 7 THAT PRIME MINISTER KHALIL CONSIDERED THE RESULTS OF THIS MOST RECENT ROUND OF NEGOTIATIONS AS "POSITIVE." KHALIL, ACCORDING TO THE REPORT, SAID THAT EAST JERUSALEM IS INCLUDED AS AN ELECTORAL CONSTITUENCY AND THAT ELECTIONS WILL BE HELD EITHER UNDER INTERNATIONAL SUPERVISION OR UNDER TRIPARTITE OR QUADRIPARTITE SUPERVISION.

7. (U) ISRAEL-PLO: REUTER REPORTS THAT ISRAEL IN A LETTER TO UN SECRETARY-GENERAL WALDHEIM COMPLAINING ABOUT A PLO-SPONSORED BOMBING IN JERUSALEM ON AUGUST 5 IN WHICH SIX PEOPLE WERE HURT CALLED THE PLO "A SYNDICATE OF MURDERERS" AND A "TERRORIST INSTRUMENT IN THE HANDS OF CERTAIN ARAB GOVERNMENTS."

8. (U) ISRAEL-TRIAL: TWO PALESTINIAN GUERRILLAS ARE TO FACE TRIAL IN MILITARY COURT ON AUGUST 9 FOR PARTICIPATING IN AN ATTACK ON COASTAL ROAD TRAFFIC MARCH 11, 1978 IN WHICH 34 ISRAELIS WERE KILLED AND 72 WOUNDED. THEY ARE THE FIRST GUERRILLAS TO BE BROUGHT TO TRIAL SINCE THE CABINET DECIDED IN THE WAKE OF THIS SPRING'S ATTACK ON NAHARIYYA TO LIFT THE 30-YEAR OLD INSTRUCTION TO THE ATTORNEY GENERAL NOT TO DEMAND THE DEATH PENALITY.
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9. (C) ISRAEL-US: EMBASSY TEL AVIV REPORTS THAT THE ISRAELI PRESS ATTRIBUTES DAYAN'S BLASTS AT THE US IN THE AUGUST 5 CABINET MEETING AND IN HIS YEDIOT AHARONOT INTERVIEW TO AN ALLEGED QUESTION CONVEYED TO HIS FROM THE SECRETARY CONCERNING THE STATE OF ISRAEL'S ECONOMY. ACCORDING TO ONE KNOWLEDGEABLE KNESSET MEMBER, DAYAN HAD A REPORT FROM AMBASSADOR EVRON WHICH CONVEYED A QUESTION FROM THE SECRETARY ON ISRAEL'S ECONOMY BUT WAS NOT CHARACTERIZED AS AN OFFER OF ASSISTANCE. NEVERTHELESS, THE ISRAELI FOREIGN MINISTRY HAS NOT DENIED A STORY CIRCULATING THAT DAYAN HAD A MESSAGE DIRECTLY FROM THE SECRETARY ON ISRAEL'S ECONOMY.

10. (U) SADAT-ARABS: SADAT IN A MEETING WITH EGYPTIAN JOURNALISTS ON THE EVENING OF AUGUST 6 ACCUSED THE ARABS (AND RIYADH BY NAME) OF TRYING "TO STARVE THE EGYPTIAN PEOPLE." THE EGYPTIAN NEWSPAPER GUMHURRIYYA REPORTED THAT SAUDI SECOND DEPUTY PRIME MINISTER AND NATIONAL GUARD COMMANDER ABDALLAH WAS INVOLVED IN A BRIBERY SCANDAL INVOLVING CONTRACTS FOR THE CONSTRUCTION OF TWO HOSPITALS FOR THE GUARD AND ALLEGED THAT GELGIAN PROSTITUTES WERE BROUGHT INTO SAUDI ARABIA UNDER THE GUISE OF NURSES. ABDALLAH WAS ACCUSED OF BEING THE SAUDI OFFICIAL MOST OPPOSED TO THE TREATY.
THESE ATTACKS CONTINUE THE RENEWED ANTI-SAUDI CAMPAIGN EVIDENT IN SADAT'S SPEECHES AND THE EGYPTIAN PRESS SINCE LATE JULY DESPITE MUBARAK'S PLEDGE TO LOOK INTO THE MATTER. THE SAUDIS HAVE, THUS FAR, NOT RESPONDED TO THIS CAMPAIGN BUT HAVE INDICATED TO US THAT THEIR PATIENCE IS

WEARING THIN.

11. (U) ISRAELI PRESS-US-LEBANON: MOST OF THE ISRAELI PRESS AUGUST 8 INTERPRETED THE SECRETARY'S LETTER TO CONGRESS ON THE USE OF US EQUIPMENT IN LEBANON AS A THREAT OF A MILITARY EMBARGO. THE JERUSALEM POST WAS AN EXCEPTION NOTING THE PHRASE THAT ISRAEL "MAY" HAVE VIOLATED AGREEMENTS WITH THE US. THE POST CHARACTERIZED THE SECRETARY'S WARNING TO ISRAEL AS " VEILED" AND "ELIBERATELY VAGU"."

12. (U) *LEBANON-UNIFIL: IN A STATEMENT DEVELOPED* TO THE CHAMBER OF DEPUTIES ON THE SECURITY SITUATION IN THE COUNTRY, PRIME MINISTER AL-HUSS ACCUSED ISRAEL THROUGH ITS "AGGRESSIONS" OF TRYING "TO EMBARRASS, HUMILIATE AND DEMORALIZE THE UN FORCES, PROMPTING THEM TO WITHDRAW." VANCE
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S E C R E T SECTION 01 OF 03 STATE 214676/01

E.O. 12065: GDS 8/16/85 (MONTVILLE, JOSEPH V.)

TAGS:EG,IS,PINR

SUBJECT: INTSUM 876-AUGUST 16,1979

(PARAGRAPHS 1-14 SECRET)

1. SAUDI ARABIA: PERCEPTIONS OF THE ARAB-ISRAELI CONFLICT. A CIA ANALYSIS OF EARLY AUGUST INCLUDES THE FOLLOWING: THE SAUDIS REGARD THE ARAB-ISRAELI CONFLICT AS A DIRECT THREAT TO THEIR NATIONAL SECURITY. THEY VIEW ARAB, AND ESPECIALLY PALESTINIAN, FRUSTRATION WITH ISRAEL AS A SOURCE OF INSTABILITY IN THE AREA THAT HAS BEEN SUCCESSFULLY EXPLOITED BY RADICAL LEFTISTS AND THE USSR. EGYPT'S PEACE AGREEMENT WITH ISRAEL HAS ONLY SERVED TO INCREASE POLARIZATION IN THE ARAB CAMP AND STRENGTHENED THE ABILITY OF RADICAL STATES LIKE IRAQ TO PLAY A LARGER ROLE IN THE REGION.

2. THE ARAB-ISRAELI CONFLICT THREATENS RIYADH'S "SPECIAL RELATIONSHIP" WITH THE US. SAUDI FOREIGN POLICY HAS LONG BEEN BASED ON TWO PILLARS—US SECURITY GUARANTEES AND SUPPORT FOR THE LARGEST POSSIBLE MODERATE ARAB ALLIANCE AND CONSENSUS. CLOSE US TIES TO ISRAEL AND WASHINGTON'S INTIMATE CONNECTION WITH THE CAMP DAVID PEACE AGREEMENTS HAVE FORCED RIYADH TO CHOOSE BETWEEN THESE TWO INTERESTS. THE SAUDIS HAVE REPEATEDLY FELT THEY MUST CHOOSE IN FAVOR OF ARAB CONSENSUS, AND THIS HAS ERODED THEIR RELATIONSHIP WITH THE US.

3. THE SAUDIS ARE ALSO CONCERNED THAT THEY MAY BECOME DIRECTLY INVOLVED IF THERE IS ANOTHER ARAB-ISRAELI WAR. WHILE THEY NO LONGER HAVE ANY MILITARY UNITS IN SYRIA AND JORDAN AS THEY DID IN THE MID-1970S, THE SAUDIS FEAR THAT ISRAEL MAY STRIKE AT SAUDI MILITARY INSTALLATIONS AT TABUK NEAR THE ISRAELI BORDER IN THE EVENT OF ANOTHER WAR. ANOTHER ARAB-ISRAELI CONFLICT, MOREOVER, WOULD LEAD TO ARAB PRESSURE TO REIMPOSE A BOYCOTT ON OIL SUPPLIES TO THE US, RAISING THE DANGER OF THE COMPLETE DESTRUCTION OF THE SPECIAL RELATIONSHIP WITH WASHINGTON.

4. THE ISSUE THE SAUDIS ARE MOST IDENTIFIED WITH IN THE WEST IS JERUSALEM. SAUDI LEADERS HAVE LONG BEEN OUTSPOKEN ADVOCATES OF THE COMPLETE RETURN OF EAST JERUSALEM TO ARAB CONTROL. SAUDI CONCERN FOR JERUSALEM IS GENUINE AND DEEPLY FELT. RELIGIOUS OUTRAGE PLAYED A MAJOR ROLE IN THE SAUDIS' INITIAL ANGER AT EGYPTIAN PRESIDENT SADAT'S VISIT TO JERUSALEM IN NOVEMBER 1977.

5. SAUDI OUT SPOKENNESS ON JERUSALEM REFLECTS RIYADH'S SELF-IMAGE AS THE DEFENDER OF ISLAMIC VALUES AND INTERESTS. THE SAUDI MONARCHY WAS ESTABLISHED AS THE SECULAR ARM OF A REFORMIST ISLAMIC MOVEMENT, THE WAHHABIS, AND REMAINS IDEOLOGICALLY CLOSE TO THE MUSLIM CLERGY, THE ULEMA. ANY PUBLIC MOVE THAT WOULD SOFTEN SAUDI COMMITMENT TO THE COMPLETE RETURN OF ARAB JERUSALEM TO ARAB CONTROL WOULD PROBABLY LEAD TO PRESSURE FROM THE ULEMA AND UNDERMINE THE LEGITIMACY OF THE MONARCHY'S CLAIM TO RULE.

6. DESPITE THEIR TOUGH PUBLIC POSTURE, HOWEVER, THERE ARE INDICATIONS THAT AT LEAST SOME SAUDI LEADERS RECOGNIZE THERE IS LITTLE LIKELIHOOD THAT ISRAEL CAN BE INDUCED TO RETURN ALL OF EAST JERUSALEM TO ARAB CONTROL AND THAT THE ARABS WILL HAVE TO SETTLE FOR SOMETHING LESS.

7. IT IS LIKELY THAT THE SAUDIS WOULD SUPPORT ANY SETTLEMENT OF THE JERUSALEM ISSUE THAT THE PALESTINIANS ACCEPTED. ONLY BY EASING PALESTINIAN FRUSTRATIONS, THE SAUDIS BELIEVE, CAN THE THREAT OF RADICALISM AND INSTABILITY BE DIMINISHED.

8. SAUDI LEADERS ARE CONVINCED THAT BRINGING THE PLO INTO THE PEACE PROCESS WOULD REMOVE THE LARGEST PALESTIN-

IAN ORGANIZATION FROM THE RADICAL CAMP OF THOSE ARABS WHO REJECT SETTLEMENT WITH ISRAEL. THE ONUS FOR ACCEPTING DIFFICULT COMPROMISES WITH ISRAEL WOULD THEREBY BE SHIFTED FROM THE MODERATE ARABS TO THE PALESTINIANS THEMSELVES.

9. THE SAUDIS PREFER THAT THE BANK AND GAZA FORM THE BASIS OF AN INDEPENDENT PALESTINIAN STATE RATHER THAN AN ENTITY TIED TO JORDAN, ALTHOUGH RIYADH WOULD ACCEPT THE LATTER IF THE PALESTINIANS FAVORED IT. THE SAUDIS NEVER RECOGNIZED JORDANIAN CONTROL OVER THE WEST BANK BEFORE 1967 AND HAVE CONSISTENTLY SUPPORTED THE 1974 RABAT SUMMIT DECISION, WHICH STRIPPED JORDAN OF ANY RIGHT TO NEGOTIATE FOR THE WEST BANK'S RETURN.

10. SAUDI SUPPORT FOR THE PALESTINIAN FEDAYEEN DATES FROM THE LATE 1960S. THE SAUDIS ARE AMONG THE MOST IMPORTANT FINANCIAL BACKERS OF THE PLO AND ESPECIALLY OF YASIR ARAFAT'S FATAH GROUP. SAUDI SUPPORT FOR THE PALESTINIANS REFLECTS A COMBINATION OF SINCERE COMMITMENT TO THEIR CAUSE AND FEAR OF A POTENTIAL FEDAYEEN CAMPAIGN OF SUBVERSION AGAINST THE KINGDOM.

11. CENTRAL TO THE SAUDI-PALESTINIAN RELATIONSHIP IS

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THE FACT THAT MORE THAN 100,000 PALESTINIANS LIVE IN THE KINGDOM. THE PALESTINIAN COMMUNITY INCLUDES MANY LONG-TIME RESIDENTS WORKING IN MEDICINE, TEACHING, BUSINESS, AND THE SKILLED TRADES. THE PALESTINAINS IN SAUDI ARABIA ARE THE HIGHEST PAID OF THE ARAB AND OTHER NON-WESTERN EXPATRIATE WORKERS IN THE COUNTRY--A SITUATION THAT GIVES THEM A STAKE IN THE STABILITY OF THE REGIME. THE SAUDIS HAVE, HOWEVER, CAREFULLY LIMITED THE NUMBER OF PALESTINIANS WORKING IN THE OIL INDUSTRY, AND THE SECURITY SERVICES KEEP A CLOSE WATCH ON THE PALESTINIAN COMMUNITY.

12. THE LINKAGE BETWEEN SAUDI ATTITUDES ON THE PEACE PROCESS AND THEIR WILLINGNESS TO SUPPLY OIL TO THE WEST IS SUBTLE AND COMPLEX. THE SAUDIS ARE WELL AWARE THAT MARKET FORCES SINCE 1973 HAVE INCREASED THEIR LEVERAGE OVER THE US AND THAT A FULL-SCALE EMBARGO IS NO LONGER NECESSARY TO APPLY PRESSURE. THE SAUDIS CAN PRESS THE US SIMPLY BY INACTION IN THE FACE OF INCREASED DEMAND, OR BY NOT RESISTING PRESSURES FOR HIGHER PRICES.

13. AT THE SAME TIME, SAUDI OIL POLICY IS INFLUENCED BY ISSUES OTHER THAN THE PEACE PROCESS. THE SAUDI HAVE TO BALANCE THEIR NEED FOR US SECURITY GUARANTEES AND THEIR ECONOMIC RELATIONSHIP WITH THE WEST AGAINST THEIR DESIRE FOR A MORE FORTHCOMING US POLICY ON THE PALESTINIAN ISSUE.

14. THE SAUDIS ARE MORE LIKELY TO USE THEIR OIL LEVERAGE AS AN INDUCEMENT TO THE US TO PROMOTE PROGRESS IN THE PEACE PROCESS THAN AS A THREAT. IN THE MONTHS AHEAD, THE SAUDIS

WILL BE LOOKING FOR INDICATIONS THAT THE CURRENT AUTONOMY NEGOTIATIONS BETWEEN EGYPT AND ISRAEL CAN ULTIMATELY PROVIDE THE BASIS FOR SATISFACTORY SETTLEMENT OF THE PALESTINIAN PROBLEM, BUT RIYADH IS NOT OPTIMISTIC. THE ATTITUDE OF THE PLO WILL BE CRUCIAL. IF THE PALESTINIANS REJECT THE OUTCOME OF THE AUTONOMY NEGOTIATIONS, IT IS HIGHLY UNLIKELY THAT THE SAUDIS WILL CHANGE THEIR CURRENT STANCE.

(PARAGRAPHS 15-20 UNCLASSIFIED)

15. ISRAEL-PALESTINIANS: JERUSALEM RADIO REPORTED THAT 15 KNESSET MEMBERS HAVE BEEN INVITED TO PARTICIPATE IN AN "ISRAELI-PALESTINIAN" CONVENTION WHICH WILL BE HELD IN SIX WEEKS IN WASHINGTON. THE RADIO'S CORRESPONDENT REPORTED THAT THE CONFERENCE'S AIM IS TO HAVE ISRAELIS, INCLUDING MEMBERS OF THE PEACE NOW MOVEMENT, MEET WITH PALESTINIANS IN THE UNITED STATES. ISRAEL'S EMBASSY IN WASHINGTON IS REPORTED TO FEAR THAT THE CONVENTION WILL HARM THE WAY ISRAEL PRESENTS ITS POSITION. THE KNESSET MEMBERS INVITED TO THE CONFERENCE REPORTEDLY HAVE MADE THEIR PARTICIPATION CONDITIONAL UPON ASSURANCES THAT THOSE PALESTINIANS PARTICIPATING WILL NOT BE ORGANIZATIONALLY IDENTIFIED WITH THE PLO AND THAT AN AGENDA WILL BE AGREED UPON IN ADVANCE.

AMONG THOSE INVITED ARE MEMBERS OF THE RULING COALITION'S NATIONAL RELIGIOUS PARTY; ABBA EBAN AND YOSSI SARID FROM THE ALIGNMENT; SHULAMIT ALONI FROM THE CITIZENS RIGHTS MOVEMENT; SHMUEL TOLEDANO FROM SHAY (WHICH BOLTED FROM YADIN'S DEMOCRATIC MOVEMENT FOR CHANGE); AND MEIR PAIL FROM THE DOVISH SEHLLI PARTY.

16. ISRAEL-US-PLO: JERUSALEM RADIO REPORTED AUGUST 15 THAT BEGIN WILL RAISE AMBASSADOR YOUNG'S MEETING WITH THE PLO OFFICIAL IN HIS TALKS WITH AMBASSADOR STRAUSS THIS WEEK. IN AN EDITORIAL, YEDIOT AHARANOT SAID THAT "SOMEONE" IN WASHINGTON IS MAKING EFFORTS TO BRING THE PLO DOWN TO THE US. HATZOEF URGES THE ISRAELI GOVERNMENT TO MAKE CLEAR THAT IT WILL NOT BE HAPPY WITH "MERELY REPEATED" OLD STATEMENTS ABOUT POLICY ON THE PLO. DEPUTY PRIME MINISTER YADIN, LEAVING FOR WHAT JERUSALEM RADIO CALLED

" A US INFORMATION CAMPAIGN," SAID AMBASSADOR YOUNG'S MEETING CONSTITUTES "A CLEAR DEVIATION" OF US POLICY.

17. ISRAEL-BOMBING INCIDENT: TEL AVIV RADIO REPORTED THAT TWO PEOPLE WERE WOUNDED AUGUST 15 WHEN A BOMB EXPLODED AT AN INTERSECTION NEAR NETANYA. ANOTHER INDIVIDUAL WAS WOUNDED WHEN A BOMB WENT OFF IN A TEL AVIV SUBURB.

18. IRAQ-IMPORTANT ANNOUNCEMENT: THE KUWAITI NEWSPAPER AL-WATAN, CITING ARAB SOURCES, SAID IRAQI PRESIDENT SADDAM HUSAYN WILL ANNOUNCE SERIOUS AND VERY IMPORTANT DECISIONS ON THE ARAB AND INTERNATIONAL LEVEL ON AUGUST 19.

19. PLO-US: ACCORDING TO AGENCE FRANCE PRESSE, THE PLO'S UN REPRESENTATIVE TERZI TOLD THE LEBANESE DAILY AL-NAHAR THAT HIS MEETING WITH AMBASSADOR YOUNG DID NOT CENTER ON "THE ROOTS OF THE PROBELM." TERZI ADDED THAT "THE BASIS OF THE PROBLEM WAS NOT EXAMINED.... I WAS SURPRISED BY REPORTS ABOUT THIS AFFAIR. THEY ARE FOUNDED ON ERRONEOUS GROUNDS...."

20. TURKEY-PLO: ANKARA RADIO REPORTED AUGUST 15 THAT A PROTOCOL WAS SIGNED BY THE TURKISH FOREIGN MINISTER AND THE ;EAD OF THE PLO'S POLITICAL DEPARTMENT IN THE TURKISH CAPITAL. ACCORDING TO THE PROTOCOL, THE PLO OFFICE IN ANKARA WILL INCLUDE A CHIEF AND FIVE SUBORDINATES. THE CHIEF OF MISSION AND TWO OTHER REPRESENTATIVES WILL ENJOY THE DIPLOMATIC IMMUNITIES AND PRIVILEGES GRANTED TO OTHER

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DIPLOMATIC MISSIONS, AND WILL BE ABLE TO FLY THE PALESTINIAN FLAG. THE TWO SIDES AGREED UPON PRINCIPLES OF MUTUAL RESPECT AND NON-INTERFERENCE IN EACH OTHER'S INTERNAL AFFAIRS.

11. (C) SAUDI ARABIA-PETROLEUM POLICY: A SAUDI OFFICIAL IN THE OIL MINISTRY HAS TOLD AN OFFICER OF US CONSULATE GENERAL DHAHRAN THAT ARAMCO HAD REACHED ITS TARGET OF 9.5 MILLION BARRELS PER DAY. HE SAID THE CURRENT LEVEL OF PRODUCTION WOULD CONTINUE "UNTIL THE MARKET IS READY FOR REDUCTION".

MEANWHILE, ACCORDING TO REUTER, SHAYKH YAMANI ACCUSED THE INDUSTRIALIZED COUNTRIES OF "PRICE GOUNGING" FOR THEIR GOODS AND SERVICES. HE PRAISED, HOWEVER, PRESIDENT CARTER'S ENERGY PROGRAM BUT ADDED THAT "OIL CIRCLES WILL BE WATCHING CAREFULLY HOW FAR THE CONGRESS COOPERATES WITH PRESIDENT CARTER IN APPLYING THE PROGRAM."

12. (U) MIDDLE EAST-CEAUCESCU:ROMANIAN PRESIDENT CEAUCESCU SAID DURING HIS VISIT TO SYRIA THAT MIDDLE EAST PEACE CANNOT BE ACHIEVED WITHOUT SETTING UP AN INDEPENDENT PALESTINIAN STATE. HE SAID NEW INITIATIVES WERE REQUIRED TO PROVIDE FOR PARTICIPATION IN THE NEGOTIATIONS OF ALL CONCERNED—ARAB COUNTRIES AND THE PLO.

13. (U) SYRIA-IRAN: THE SYRIAN FOREIGN MINISTER MET KHOMEINI IN IRAN AUGUST 15 AND THE AYATOLLAH CALLED FOR MUSLIM UNITY. SYRIAN-IRANIAN RELATIONS HAVE BEEN STRAINED AND THIS VISIT IS PROBABLY AN EFFORT TO IMPROVE TIES AND POSSIBLY TO SET THE STAGE FOR A VISIT BY THE SYRIAN PRESIDENT.

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RUESQI/AMEMBASSY QUITO PRIORITY 3736
RUFHLC/AMEMBASSY LIBREVILLE PRIORITY 1407
RUKOBT/AMEMBASSY JAKARTA PRIORITY 5881
RUQMHR/AMEMBASSY TEHRAN PRIORITY 4361
RUEHAD/USINT BAGHDAD PRIORITY 2017
RUQMKW/AMEMBASSY KUWAIT PRIORITY 8288
RUQMTI/AMEMBASSY TRIPOLI PRIORITY 9693
RUEHOS/AMEMBASSY LAGOS PRIORITY 9086
RUQMOD/AMEMBASSY DOHA PRIORITY 0373
RUQMBI/AMEMBASSY ABU DHABI PRIORITY 4969
RUESRS/AMEMBASSY CARACAS PRIORITY 7583
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E.O. 12065 GDS - 8/29/85 (COOPER, RICHARD)

TAGS: ENRG, SA, US

SUBJECT: YAMANI VIEWS ON FUTURE ENERGY SITUATION

1. IN EXTENDED DISCUSSION WITH UNDER SECRETARY COOPER AUGUST 28, SAUDI OIL MINISTER YAMANI SKETCHED FOLLOWING PROGNOSIS.

2. YAMANI FORESAW SOME SURPLUS OVER REST OF YEAR PERMITTING BUILDING OF OIL STOCKS AND CONTINUED DOWNWARD PRESSURE ON SPOT PRICES. ASSUMING RECESSION IN OECD COUNTRIES AND RESULTANT DEMAND RESTRAINT IN 1980, HE FORESAW A COMFORTABLE CRUDE OIL SURPLUS IN WHICH INCREASED NORTH SEA AND MEXICAN PRODUCTION WOULD CAUSE DROP IN DEMAND FOR OPEC OIL. SINCE SOME OPEC PRODUCERS NEED TO PRODUCE AT FULL CAPACITY FOR DEVELOPMENT REASONS, HE FORESAW POSSIBILITY OF MOVEMENT TOWARD OPEC PRICE UNITY. (THROUGHOUT HIS COMMENTS YAMANI STUDIOUSLY AVOIDED COMMENT ON SAUDI PRO-

DUCTION PLANS.)

3. YAMANI EXPRESSED GREAT CONCERN ABOUT 1981-85 PERIOD. HE SAW LITTLE PROSPECT FOR INCREASED OPEC PRODUCTION OVER THAT PERIOD. HE NOTED THAT OPEC COUNTRIES WITH PRESSING INCOME NEEDS SUCH AS INDONESIA AND NIGERIA ARE FACING SIGNIFICANT TECHNICAL PROBLEMS IN INCREASING PRODUCTION. KUWAIT WANTS TO CUT PRODUCTION TO AROUND 1.6 MBPD. "OTHERS" WANT TO RESTRAIN PRODUCTION. IN THIS PERIOD, HOWEVER, OECD COUNTRIES WILL BE UNDER GREAT PRESSURE IN THE FACE OF HIGH UNEMPLOYMENT TO EXPAND ECONOMIES. EVEN A TWO PERCENT GROWTH IN OECD ENERGY DEMAND WILL CAUSE SERIOUS PRESSURES. THE EASY STEPS IN ENERGY CONSERVATION AND DEVELOPMENT OF ALTERNATIVE SOURCES WILL HAVE BEEN MADE AND REALLY SIGNIFICANT DIVERSIFICATION OF ENERGY SOURCES WILL NOT BE POSSIBLE UNTIL 1985 AND BEYOND. YAMANI DID OBSERVE, HOWEVER, HAT IF THE TOKYO SUMMIT TARGETS WERE MET, WE MIGHT BE ABLE TO MANAGE THE PERIOD TO 1985 WITHOUT UNDUE PRESSURE ON THE MARKET.

4. YAMANI STRESSED THAT THIS ASSESSMENT WAS BASED ON THE "VERY BIG IF" THAT PRESENT CONDITIONS IN OPEC PRODUCING COUNTRIES REMAIN THE SAME AND SPECIFICALLY THAT IRANIAN PRODUCTION WOULD NOT FURTHER DECLINE. IN THIS REGARD HE EXPRESSED SERIOUS CONCERN ABOUT IRAN'S ABILITY TO SUSTAIN PRODUCTION WITHOUT SIGNIFICANT OUTSIDE HELP, AND WAS SKEPTICAL THAT PRESENT 400,000 B/D DROP IN IRANIAN PRODUCTION WAS INDEED RELATED TO WEATHER CONDITIONS IN PERSIAN GULF.

5. YAMANI EMPHASIZED THAT IN THIS DIFFICULT 1981-85 SITUATION IT IS ESSENTIAL THAT THE REAL PRICE OF OIL CONTINUE TO RISE, GRADUALLY AND IN CAREFULLY MODULATED MANNER. THIS IS ESSENTIAL TO RESTRAIN DEMAND, TO PREVENT SERIOUS SUPPLY GAPS AND TO PROVIDE THE ECONOMIC INCENTIVES FOR THE DEVELOPMENT OF ALTERNATE SOURCES OF ENERGY.

6. IN HIS PRESENTATION YAMANI STRESSED THE ASSUMPTION THAT BY MID-1980 US AND OTHER MAJOR CONSUMERS MUST MOVE AWAY FROM OIL DEPENDENT ECONOMIES TOWARD DIVERSIFIED ENERGY SOURCES. HE EXPRESSED GREAT INTEREST IN

PRESIDENT'S ENERGY PROGRAM INCLUDING STATUS OF WINDFALL PROFITS TAX AND RELATED ENERGY FUND ALLOCATIONS.

7. IN COURSE OF DISCUSSIONS UNDER SECRETARY COOPER NOTED IMPORTANCE OF SOVIET OIL DEVELOPMENTS ON INTERNATIONAL MARKET. INDICATING OUR BELIEF THAT SOVIET CONSUMPTION IS GROWING FASTER THAN PRODUCTION AND THAT THERE ARE ESTIMATES THAT THE GAP MAY REACH 1-3 MBPD, WITH THE SOVIETS BECOMING AN OIL IMPORTER AT THE HIGHER FIGURE. VANCE

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RUQMIF/AMEMBASSY AMMAN
RUQMBE/AMEMBASSY BEIRUT
RUEHEY/AMEMBASSY CAIRO
RUQMRA/AMEMBASSY JIDDA
RUDKKR/AMEMBASSY TUNIS
RUQMKM/AMEMBASSY KHARTOUM
RUQMKW/AMEMBASSY KUWAIT
RUQMHR/AMEMBASSY TEHRAN
RUQMAD/USICA TEL AVIV
RUEHUS/AMEMBASSY DAMASCUS
RUQMTI/AMEMBASSY TRIPOLI
RUQMNS/AMEMBASSY SANA
RUQMBI/AMEMBASSY ABU DHABI
RUQMMT/AMEMBASSY MUSCAT
RUQMDH/AMCONSUL DHAHRAN
RUQMAM/AMEMBASSY MANAMA
RUFHMR/AMEMBASSY RABAT
RUFHRS/AMEMBASSY ALGIERS
BT
UNCLAS SECTION 01 OF 02

USINFO

E.O. 12065 N/A

USICA FOR PAO FROM PGM/PPN
FOLLOWING IS A PRESS RELEASE FROM THE OFFICE OF CONGRESSMAN
LES ASPIN, DATED SEPTEMBER 4:
(BEGIN TEXT)

ASPIN SAYS SAUDIS GOBBLE UP MILLITARY PURCHASES

WASHINGTON, D.C.-- SAUDI ARABIA HAS SIGNED UP FOR WELL
OVER HALF OF EVERYTHING SOLD UNDER THE FOREIGN MILITARY SALES

PROGRAM SINCE THE FALL OF THE SHAH, REP. LES ASPIN (D-WIS.) REVEALED TODAY.

" SAUDI ARABIA IS BUYING 11 TIMES AS MUCH AS THE SECOND LARGEST MILITARY CUSTOMER, ASPIN SAID.

" SINCE THE SHAH FELL LAST FEBRUARY, THE PENTAGON HAS SIGNED CONTRACTS TO SEEL 6.3 BILLION DOLLARS IN GOODS AND SERVICES UNDER THE FOREIGN MILITARY SALES PROGRAM." ASPIN SAID. " OF THAT TOTAL, SAUDI ARABIA HAS SIGNED FOR 3.7 BILLION DOLLARS OR 58 PERCENT OF THE ENTIRE WORLDWIDE POT."

IN THE SIX YEARS BEFORE THE SHAH'S FALL, IRAN LED THE LIST OF THE PENTAGON'S CUSTOMERS IN THREE YEARS AND SAUDI ARABIA IN THE OTHER THREE. BUT ASPIN NOTED THAT NO COUNTRY HAS EVER BEFORE BOUGHT MORE THAN HALF OF EVERYTHING SOLD UNDER FMS IN A SINNGLE YEAR.

ASPIN SAID, "TWO THINGS ARE DISTURBING ABOUT THESE NUMBERS.

" FIRST, MANY PEOPLE HAD BEEN CONCERNED FOR YEARS THAT THE SAUDI EXPANSION PROGRAM WAS LARGELY A COUNTER TO THE IRANIAN EXPANSION SINCE THE SAUDIS COULDN'T VERY WELL LET THEMSELVES BE OUTCLASSED IN THEIR OWN BACKYARD. UNDER THAT INTERPRETATION, THE SAUDI RATE OF PURCHASES SHOULD NOT BE WANING-- BUT IT'S NOT.

"SECOND, GIVEN THE STRONG SAUDI REACTION AGAINST THE CAMP DAVID ACCORDS, THE CONTINUING SAUDI BUILDUP IS CERTAIN TO FUEL FEARS THAT RIYADH HAS ISRAEL IN ITS SIGHTS."

ASPIN'S FIGURES ON ARMS SALES SINCE THE IRANIAN REVOLUTION WERE DERIVED BY SUBTRACTING THE FIGURES SHOWN ON THE COMPUTER PRINTOUT FOR SALES AS OF AUGUST 16 FROM THE PRINTOUT FOR SALES AS OF FEBRUARY 22, SHORTLY AFTER THE SHAH'S REGIME FELL. THE COMPUTER PRINTOUTS WERE SUPPLIED BY THE DEFENSE SECURITY ASSISTANCE AGENCY.

IN THAT SAME TIME PERIOD, ISRAEL RANKED FOURTH ON THE LIST OF ARMS BUYERS. IRAN BOUGHT NOTHING.

ASPIN SAID. THE MASSIVENESS OF THE SAUDI CONTRACTS BECAME EVEN MORE EVIDENT WHEN YOU NOTICE THAT THE SECOND LARGEST BUYER SINCE THE SHAH'S FALL HAS BEEN A NATO AGENCY THAT SIGNED FOR ONLY 5 PERCENT OF THE TOTAL. SAUDI ARABIA BOUGHT 11 TIMES AS MUCH AS THE NUMBER TWO BUYER ."

ASPIN SAID, "IT SHOULD BE REMEMBERED THAT MANY OF THESE MILITARY PROGRAMS ARE A LONG TIME IN PREPARATION. THUS, THERE MAY BE AN ELEMENT OF MOMENTUM INVOLVED IN SOME OF

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NNNNVV ESB012DHA540
PP RUQMHR
DE RUQMDH #1466 2580745
ZNY SSSSS ZZH
P R 150710Z SEP 79
FM AMCONSUL DHAHRAN
TO RUEHC/SECSTATE WASHDC PRIORITY 7390
INFO RUQMBI/AMEMBASSY ABU DHABI 471
RUEHAD/USINT BAGHDAD 101
RUQMOD/AMEMBASSY DOHA 221
RUQMRA/AMEMBASSY JIDDA PRIORITY 9773
RUQMKW/AMEMBASSY KUWAIT 1423
RUQMAM/AMEMBASSY MANAMA PRIORITY 806
RUQMYA/USLO RIYADH 1077
RUQMHR/AMEMBASSY TEHRAN 1334
BT
S E C R E T DHAHRAN 1466

POL
CHRG'
ECON
RF
CHRN

EO 12065: GDS 9/15/85 (LINDSTROM, RALPH E.) OR-M
TAGS: MILI, PEPR, SA, BA
SUBJECT: SAG REPORTEDLY SENDS NATIONAL GUARDSMEN TO BAHRAIN

1. (S- ENTIRE TEXT)

2. SAUDI BUSINESSMAN IN PERSENCE OF POLICE OFFICIAL TOLD CONSOFF SEPTEMBER 14 THAT SAG HAS SENT 500 NATIONAL GUARDSMEN TO BAHRAIN TO HELP GOB MAINTAIN ORDER IN FACE OF SHI'S UNREST.

3. WHEN CONSOFF ASKED WEHTHER SIG WAS CONCERNED OVER SHI'S AS IN SAUDI ARABIA'S EASTERN PROVINCE, HIS QUERY WAS DISMISSED WITH SUSTOMARY SAUDI ESTABLISHMENT DISDAIN FOR THIS MINORITY.

4. DOES EMBASSY MANAMA HAVE ANY CNFIRMATION OF THIS REPORT? LINDSTROM
MT
#1466

VV ESA203MNA019

PP RUQMHR
DE RUQMAM #1831 2590930
ZNY SSSSS ZZH
P 160915Z SEP 79
FM AMEMBASSY MANAMA
TO RUEHC/SECSTATE WASHDC PRIORITY 7882
INFO RUQMBI/AMEMBASSY ABU DHABI 1724
RUEHAD/USINT BAGHDAD 301
RUQMDH/AMCONSUL DHAHRAN PRIORITY 1126
RUQMOD/AMEMBASSY DOHA 1472
RUQMRA/AMEMBASSY JIDDA PRIORITY 1110
RUQMKW/AMEMBASSY KUWAIT 3228
RUQMYA/USLO RIYADH 166
RUQMHR/AMEMBASSY TEHRAN 1304
BT
S E C R E T MANAMA 1851

POL
CHRG"
ECON
MAAG/DAO
CHRN

E.O. 12065: GDS 9/16/85 (PELLETREAU, ROBERT H.) OR-M
TAGS: MILI, PEPR, SA, BA
SUBJ: (S) SAG REPORTEDLY SENDS NATIONAL GUARDSMEN TO BAHRAIN

REF: DHAHRAN 1466

1. (S) NEITHER WE NOR BRITISH EMBASSY HAVE RECEIVED ANY CONFIRMATION OF SAG NATIONAL GUARDSMEN ACTUALLY BEING SENT TO BAHRAIN, DURING DEMONSTRATIONS AT THE END OF AUGUST, RUMORS WERE STRONG THAT UP TO TWO THOUSAND SAUDI POLICE HAD ARRIVED TO ASSIST IN CONTAINING SITUATION BUT NO TRACE OF THEM EVER APPEARED.

2. (S) COMMENT: WHILE SAUDIS HAVE AN OBVIOUS INTEREST IN BAHRAINI STABLITY AND IN PREVENTING ANY OVERFLOW OF SHIA UNREST INTO THE EASTERN PROVINCE, IN OUR VIEW GOD WOULD BE EXTREMELY RELUCTANT TO REQUEST SAUDI HELP TO KEEP ITS HOUSE IN ORDER UNLESS IN EXTREMIS. THAT IS CLEARLY NOT THE CASE.

PELLETREAU

BT
#1831

NNNN

NNNNVV ESA598RAA007
RR RUQMHR
DE RUQMRA #6654 2630555 ECON
ZNY CCCCC ZZH
R 200533Z SEP 79 CHRG'
FM AMEMBASSY JIDDA POL
TO RUEHC/SECSTATE WASHDC 7411 RF
INFO RUQMKW/AMEMBASSY KUWAIT 4321 CHRN
RUQMTI/AMEMBASSY TRIPOLI 1060
RUEHAD/USINT BAGHDAD 3283
RUQMBI/AMEMBASSY ABU DHABI 1769
RUFHRS/AMEMBASSY ALGIERS 7134
RUQMOD/AMEMBASSY DOHA 764
RUQMHR/AMEMBASSY TEHRAN 2773
RUESRS/AMEMBASSY CARACAS 219
RUEHOS/AMEMBASSY LAGOS 241
RUKOBT/AMEMBASSY JAKARTA 261
RUFHLC/AMEMBASSY LOBREVILLE 56
RUESQI/AMEMBASSY QUITO 81
RUQMDH/AMCONSUL DHAHRAN 2940
BT
C O N F I D E N T I A L JIDDA 6634

DEPARTMENT PLEASE PASS TO OECD CPITALS, USOECD, AND USEEC

E.O. 12065: GDS 9/19/79 (MEYERS D F ) OR-E
TAGS: ENRG OPEC
SUBJ: CRUDE OIL SPOT MARKET SALES

1. (C ENTIRE TEXT.)

2. FOLLOWING IS TEXT OF DHAHRAN 1461 WHICH IS
REPEATED FOR INFO ADDRESSEES INFORMATION.

3. ON SEPT 11, ECON OFFICER PAID A FAREWELL CALL ON
ACTING DEPUTY MINISTER OF PETROLEUM KHADER HERSOLLAH
ACCOMPANIED BY EMBASSY PETROLEUM REPORTING OFFICER.
IN THE COURSE OF THIS MEETING, USING TALKIN POINTS
PROVIDED REF, WE RAISED THE USG'S CONCERN WITH
INCREASING SPOT MARKET CRUDE PRICES AND TOLD HERZOLLAH THAT OU
AMBASSADORS IN OTHER OPEC CAPITALS HAD BEEN INSTRUCTED
TO RAISE THIS QUESTION WITH THERI HOST

GOVERNMENTS. WE POINTED OUT THAT THIS WAS NOT BEING RAISED IN SAUDI ARABIA SINCE WE WERE AWAKE THAT ALL SAUDI CRUDE BEING MARKETED BY ARAMCO AND PETROMIN WAS SOLD ON A CONTRACT BASIS. HOWEVER, WE FELT THE MINISTRY SHOULD BE AWARE OF THIS APPROACH TO THE OTHER OPEC GOVERNMENTS.

4. HERSOLLAH COMMENTED THAT THE MAJOR CULPRITS WERE THE OTHER GULF STATES, ESPECIALLY IRAQ, BUT INCLUDING IRAN, KUWAIT, QATAR, AND POSSIBLY THE USE.
HE COULD NOT OR WOULD NOT SAY WHAT VOLUMES WERE GOING INTO THE SPOT MARKET. HE SAID THAT THE RISE IN SPOT PRICES COULD HAVE BEEN ANTICIPATED FOR TWO REASONS, FIRST, IMMEDIATELY AFTER THE OPE CONFERENCE EACH MEMBER TRYS TO DEMONSTRATE THAT IT IS FOLLOWING THE GENTLEMEN'S AGREEMENT REACHED THERE. HOWEVER, OVER TIME " FIRST ONE TANKER LOAD, THEN TWO" BEGING TO FIND THEIR WAY INTO THE SPOT MARKET.

5. HERZOLLAH, HOWEVER, ALSO PLACED SOME OF THE BLAME ON WESTERN OIL COMPANIES, WHICH, HE SAID, WERE BEGINNING TO STOCKPILE IN ANTICIPATION OF ANOTHER OPEC PRICE INCREASE. HE ASKED IF WE WERE DISCUSSING THIS PROBLEM WITH CONSUMING GOVERNMENTS AS WELL. WE RESPONDED THAT WE HAD BEEN AND WOULD BE IN TOUGH WITH THEM.

6. HERSOLLAH SAID THAT HE WOULD SEND A NOTE TO OIL MINISTER YAMNI OUTLINING WHAT HE HAD BEEN TOLD.

7. WHEN ASKED ABOUT RUMORS OF A SPECIAL OPEC CONFERENCE THIS FALL, HERZOLLAH REITERATED THAT SAUDI ARABIA WAS OPPOSED TO ANY CONFERENCE BEFORE DECEMBER. HE SAID THAT OIL MINISTER YAMANI HAD TOLD OPEC STATES IF SUCH A CONFERENCE WAS CALLDE HW WOULD NOT ATTEND.

8. IN RESPONSE TO ANOTHER QUESTION, HERZOLLAH SAID THAT ARAMCO PRODUCTION CONTINUED TO AVERAGE 9.5 MILLION B/D,
OF THIS AMMOUNT APPROX 9 MILLION B/D WAS EXPORTED IN THE FORM OF CRUDE AND VIRTUALLY ALL THE REST WAS REFINED FOR LOCAL CONSUMPTION.

9. HERZOLLAH SHOWED SPECIAL INTEREST IN THE OUTCOME OF THE IAM-OPEC LAWSUIT AND ASKED TO BE PROVIDED WITH A TEXT OF THE

FULL DECISION WHEN IT BECOMES AVAILABLE. HE WAS ESPECIALLY INTERESTED TO KNOW IF ANY OPEC COUNTRIES HAD BEEN REPRESENTED BEFORE THE COURT AND WHAT HAD BEEN THE ROLE OF AMERICAN GROUPS WHO APPEARED IN THE ROLE OF "AMICU CURIAE". HERZOLLAH, WHO IS OF PALESTINIAN ORIGIN, COMMENTED THAT THERE APPEARS TO BE A GROWING UNDERSTANDING BY AT LEAST SOME ON THE UNITED STATES OF ITS OWN INTERSTS IN THE ARAB WORLD, NOT LEAST OF WHICH IS OIL. WEST

MT

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NNNNVV ESA591RAA006
PP RUQMHR
DE RUQMRA #6652 2630600
ZNY CCCCC ZZH
P 200530Z SEP 79
FM AMEMBASSY JIDDA
TO RUEHEG/AMEMBASSY CAIRO PRIORITY
INFO RUEHC/SECSTATE WASHDC PRIORITY 7410
RUEHAM/AMEMBASSY AMMAN 438
RUEHDM/AMEMBASSY DAMASCUS 1495
RUQMHR/AMEMBASSY TEHRAN 2772
RUEHTV/AMEMBASSY TEL AVIV 1782
RUQMDH/AMCONSUL DHAHRN 2939
RUEHJM/AMCONSUL JERUSALEM 599
RUQMYA/USLO RIYADH 4044
BT
C O N F I D E N T I A L JIDDA 6652

E.O. 12065: GDS 9/19/85 (BOVIS H EUGENE) OR-P
TAGS: PINS PINT EG SA
SUBJ: (U) SAUDI ARABIA DEFENDS ITS ISLAMIC PURITY

1. (U) SEPTEMBER 19 ARABIC LANGUAGE AL MADINA EDITORIAL CITES "EGYPTIAN PRESS CLAIMS" (NO FURTHER ELABORATION) THAT AN EXTREMIST RELIGIOUS MOVEMENT HAS APPEARED IN SAUDI ARABIA. COMMENTING ON REPORT, AL MADINA STATES NO OTHER COUNTRY HAS DONE BETTER THAN SAUDI ARABIA IN PRESERVING ITS RELIGIOUS INTEGRITY OR IN PROPAGATING ISLAM. EGYPTIAN RULERS THEMSELVES DO NO OBSERVE STRICT RULES OF ISLAM, AND EVEN IRAN IS NOT 100 PERCENT ISLAMIC, LIKE SAUDI ARABIA. EGYPTIAN PRESS SHOULD CEASE MAKING SUCH CLAIMS.

2. (C) COMMENT: RELIGIOUS ISSUE IS VERY SENSITIVE FOR SAUDIS, ESPECIALLY FOLLOWING EVENTS IN IRAN. REACTION HERE TO EGYPTIAN GIBES ON RELIGIOUS ISSUE IS STRONGER AND QUICKER THAN TO SADAT OR CAIRO PRESS STATEMENTS ABOUT SAUDI POLITICAL PERFIDY OR EVEN CORRUPTION. THIS IS FIRST KNOWN INSTANCE OF SAUDI'S TELLING EGYPTIANS TO S UT UP IN THE LATEST ROUND OF SAUDI-EGYPTIAN BICKERING. END COMMENT.

3. (C) FOR CAIRO: WOULD APPRECIATE FURTHER INFORMATION ON EGYPTIAN PRESS REPORTS ABOUT RELIGIOUS EXTREMISTS AND/OR OPPOSITION IN SAUDI ARABIA. WEST

BT 152
#6652

ZNNNVV ESA984DHA824
PP RUQMHR
DE RUQMDH #1520 2671450
ZNY CCCCC ZZH
P R 2414102 SEP 79
FM AMCONSUL DHAHRAN
TO RUEHC/SECSTATE WASHDC PRIORITY 7416
INFO RUQMBI/AMEMBASSY ABU DHABI 472
RUFHRS/AMEMBASSY ALGIERS 49
RUEHAD/USINT BAGHDAD 102
RUESRS/AMEMBASSY CARACAS 32
RUQMOD/AMEMBASSY DOHA 223
RUKOBT/AMEMBASSY JAKARTA PRIORITY 9806
RUQMKW/AMEMBASSY KUWAIT 1424
RUEHOS/AMEMBASSY LAGOS 45
RUFHLC/AMEMBASSY LIBREVILLE 21
RUESQI/AMEMBASSY QUITO 20
RUQMYA/USLO RIYADH 1100
RUQMHR/AMEMBASSY TEHRAN 1335
RUQMTI/AMEMBASSY TRIPOLI 138
BT
C O N F I D E N T I A L DHAHRAN 1520

DEPT PLEASE PASS TO OECD CAPITALS, USOECD, AND USEEC

EO 12065: GDS 9/24/85 (LINDSTROM, RALPH E.) OR-M
TAGS: ENRG, OPEC, SA
SUBJECT: SAUDI OIL PRODUCTION CEILING AND OPEC PRICE OUTLOOK

1. (C-ENTIRE TEXT).

2. ACTING DEPUTY MINISTER OF PETROLEUM KHADER HERZOLLAH CONFIRMED TO ME DURING SEPTEMBER 24 CALL AT EASTERN PROVINCE MINISTRY OFFICE THAT HE HAD NOT RECEIVED AN ORDER FROM MINISTER OF PETROLEUM YAMANI TO CUT BACK ARAMCO PRODUCTION NEXT MONTH TO REGULAR 8.5 MILLION B/D PRODUCTION CEILING. IN ABSENCE OF SUCH AN ORDER, HE SAID THERE WAS NO REASON TO ASK ARAMCO TO PRODUCE AT LESS THAN PRESENT TEMPORARY CEILING OF 9.5 MILLION B/D. COMMENT: WHILE HERZOLLAH DID NOT EXPLICITLY STATE THAT TEMPORARY CEILING WOULD BE EXTENDED THROUGH FULL

FOURTH QUARTER, IT WAS CLEAR FROM TONE AND SUBSTANCE OF HIS DISCUSSIONS OF PRICES THAT HE IS CONFIDENT IT WILL.

3. DESPITE APPARENT ASSUMPTION OF CONTINUED ARAMCO PRODUCTION AT CURRENT LEVELS, HERZOLLAH IS WORRIED THAT A GENERALIZED OPEC PRICE INCREASE MAY NOT BE AVOIDABLE IN DECEMBER OPEC MEETING. HE POINTED OUT THAT AT LEAST 10 PERCENT OF OPEC OIL (PARTICULARLY FROM IRAQ, KUWAIT, IRAN, DUBAI, NIGERIA) AND "PERHAPS MORE WE DON'T KNOW ABOUT FROM LIBYA" IS BEING MARKETED AT HIGHER THAN OPEC RATES AND IN MANY CASES AT SPOT MARKET PRICES. HOW, HE ASKED, CAN WE ARGUE WITH IRAQIS AT DECEMBER OPEC MEETING THAT SUPPLY/DEMAND CONDITIONS DO NOT JUSTIFY A GENERAL OPEC PRICE INCREASE WHEN THEY WILL SHOW US INVOICES DOCUMENTING SALES TO EXXON AND OTHER LARGE OIL COMPANIES AT SPOT MARKET PRICES? MUCH WILL DEPEND, OF COURSE, ON MAINTENANCE OF CURRENT DELICATE BALANCE BETWEEN SUPPLY AND DEMAND. " IF, FOR EXAMPLE, GOD DECIDES ON AN EARLY OR HARSH WINTER IN EITHER EUROPE OR THE U.S..," HERZOLLAH BELIEVES THAT IT WILL BE VIRTUALLY IMPOSSIBLE TO AVOID ANOTHER SIGNIFICANT OPEC PRICE INCREASE IN DECEMBER, ALTHOUGH SAUDI ARABIA WILL CONTINUE TO DO ITS BEST TO HOLD THE PRICE LINE IN ORDER TO AVOID FURTHER DAMAGE TO THE WORLD ECONOMY.

4. BACKGROUND NOTE: HERZOLLAH IS YAMANI'S TOP ADVISER ON OPEC MATTERS AND ACCOMPANIES HIM TO ALL MAJOR OPEC MEETINGS.

LINDSTROM

BT

#1520

NNNNVV ESA264RAA735
PP RUQMHR
DE RUQMRA #6850 2701130
ZNY CCCCC ZZH
P R 270950Z SEP 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC PRIORITY 7496
INFO RUQMBI/AMEMBASSY ABU DHABI 1774
RUEHAD/USINT BAGHDAD 3292
RUFHOL/AMEMBASSY BONN 665
RUQMDH/AMCONSUL DHAHRAN 2976
RUQMKW/AMEMBASSY DOHA 766
RUQMKW/AMEMBASSY KUWAIT 4327
RUDTC/AMEMBASSY LONDON 4266
RUQMAM/AMEMBASSY MANAMA 1513
RUQMMT/AMEMBASSY MUSCAT 694
RUFNPS/AMEMBASSY PARIS 2104
RUQMYA/USLO RIYADH 4080
RUQMHR/AMEMBASSY TEHRAN 2774
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C O N F I D E N T I A L JIDDA 6850

E.O. 12065: GDS 9/27/85 (PLACKE, JAMES A) OR-M
TAGS: MARR, SA, MU, SA, GW, ZP
SUBJECT: (C) GULF SECURITY

REF: LONDON 18961

1. (C - ENTIRE TEXT).

2. MFA DIRECTOR FOR ARAB AFFAIRSISMAIL AL-SHURA TOLD POL COUNSELOR ON SEPTEMBER 25 THAT OMANI FOREIGN UNDER SECRTARY YUSUF AL-ALAWI HAD MADE UNREPORTED VISIT TO SAUDI ARABIA ON SEPTEMBER 20 TO DISCUSS GULF SECURITY. ALAWI SAID THAT OMAN THOUGHT THAT SECURITY OF GULF AND STRAITS OF HORMUZ REQUIRED COOPERATIVE EFFORT OF OMAN, SAUDIA ARABIA, AND LOWER GUFL STATES, WITH THE SUPPORT OF SUCH WESTERN POWERS AS THE U.S., UK, AND WEST GERMANY. HE PRESENTED SECURITY SURVEY OF STRAITS OF HORMUZ WHICH SHOWED THAT MOST SERIOUS THREAT TO STRAITS WAS FROM MINING. HE ASKED SUADI ARABIA TO PROVIDE MINESWEEPER.

3. PRINCE SAUD SAID THAT SAUDI ARABIA PREFERRED COOPERATIVE EFFORT AMONG FULF STATES FOR GULF SECURITY. INCLUSION OF OUTSIDE POWERS IN THE ARRANGEMENT WOULD ONLY COMPLICATE THINGS IN THE ARAB WORLD AND INVITE CRITICISM OF OTHER ARAB STATES. HE SAID THAT SAG WOULD STUDY SECURITY SURVEY AND CONSIDER OMANI REQUEST FOR MINESWEEPER.

4. ALAWI SAID COOPERATION WITH SAUDI ARABIA, BAHRAIN, UAE, QATER, AND POSSIBLY KUWAIT WAS DESIRABLE. HE DID NOT THINNK IT POSSIBLE OR DESIRABLE TO GET COOPERATION FROM IRAN AT THE MOMENT. IRAQ WOULD ONLY BE OBSTREPEROUS.

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NNNNVV ESA223RAA692

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DE RUQMRA #7074 2821000
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FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7583
RUQMBI/AMEMBASSY ABU DHABI 1783
RUESRS/AMEMBASSY CARACAS 220
RUFHRS/AMEMBASSY ALGIERS 7144
RUQMOD/AMEMBASSY DOHA 772
RUKOBT/AMEMBASSY JAKARTA 262
RUQMKW/AMEMBASSY KUWAIT 4333
RUEHOS/AMEMBASSY LAGOS 242
RUFHLC/AMEMBASSY LIBREVILLE 57
RUQMAM/AMEMBASSY MANAMA 1517
RUQMMT/AMEMBASSY MUSCAT 701
RUESQI/AMEMBASSY QUITO 82
RUQMHR/AMEMBASSY TEHRAN 2779
RUQMTI/AMEMBASSY TRIPOLI 1073
RUFHAU/AMEMBASSY VIENNA 261
RUEHAD/USINT BAGHDAD 3300
RUQMDH/AMCONSUL DHAHRAN 3012
RUQMYA/USLO RIYADH 4124
RUFHOL/AMEMBASSY BONN 667
RUDIC/AMEMBASSY LONDON 4275
RUEHME/AMEMBASSY MEXICO CITY 46
RUFNPS/AMEMBASSY PARIS 2111
RUDKSNQ/AMEMBASSY OSLO 50
RUEHKO/AMEMBASSY TOKYO 424
RUEHOT/AMEMBASSY OTTAWA 125
RUFHGV/USMISSION GENEVA 297
BT
C O N F I D E N T I A L JIDDA 7074

ECON
CHARGE'
POL
RF
CHRON

EO 12065: GDS 10/9/85 (NORRIS, C E) OR-E
TAGS: ENRG, SA
SUBJ: SAUDI OIL PRODUCTION

1. (U) NEWSPAPERS TODAY CARRIED TERSE ANNOUNCEMENT BY INFORMATION MINISTER ABDO YAMANI DENYING FOREIGN PRESS REPORTS THAT SAUDI ARABIA HAD DECIDED TO END SURPLUS OIL PRODUCTION END OF THIS QUARTER. YAMANI CHARACTERIZED REPORTS AS ABSOLUTELY UNFOUNDED AND STATED THAT NO DECISION HAD YET BEEN MADE IN THIS REGARD.
2. (C) THIS IS NOT QUITE A CONTRADICTION OF THE STATEMENT OF FOREIGN MINISTER PRINCE SA'UD PUBLISHED IN WALL STREET JOURNAL OF 5 OCT THAT SAUDI ARABIA DOES NOT PLAN TO CONTINUE PRODUCING EXTRA OIL BEYOND JAN 1. THE USE OF A PUBLIC OFFICIAL STATEMENT DOES ILLUSTRATE HOW TIGHTLY CROWN PRINCE FAHD WISHES TO RESERVE OIL PRICING AND PRODUCTION DECISIONS TO HIMSELF. SEE SEPTEL. WEST
BT
#7074

002710

VV ESA422RAA862
PP RUQMHR
DE RUQMRA #7096/1 2831010
ZNY SSSSS ZZH
P R 100524Z OCT 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC PRIORITY 7592
RUQMBI/AMEMBASSY ABU DHABI 1785
RUTABA/AMEMBASSY ADDIS ABABA 708
RUEHAM/AMEMBASSY AMMAN 4052
RUQMBE/AMEMBASSY BEIRUT 7268
RUEHEG/AMEMBASSY CAIRO 3826
RUQMDH/AMCONSUL DHAHRAN 3017
RUSBLK/AMEMBASSY KABUL 213
RUQMKM/AMEMBASSY KHARTOUM 1171
RUQMAM/AMEMBASSY MANAMA 1519
RUQMDI/AMEMBASSY MOGADISHU 467
RUQMYA/USLO RIYADH 4128
RUQMHR/AMEMBASSY TEHRAN 2788
RUEADWW/WHITE HOUSE WASHDC
BT
S E C R E T SECTION 1 OF 3 JIDDA 7096

CHARGE

FILE COPY
DUMMY CHRON

EXDIS

E.O. 12065: RDS 10/8/99 (WEST, JOHN C.) OR-M
TAGS: PEPR, SA, US
SUBJECT: (S) MEETING WITH CROWN PRINCE FAHD - OCTOBER 2

REF: (A) JIDDA 6979, (B) JIDDA 6977

1. (S - ENTIRE TEXT).

2. SUMMARY SENT REF (A).

3. AMBASSADOR WEST, ACCOMPANIED BY AMBASSADOR FREDERIC CHAPIN, VISITING JIDDA FROM ADDIS ABABA, AND SPECIAL COUNSELOR ISA SABBAGH, CALLED ON CROWN PRINCE FAHD OCT 2 AT 2230 IN FHAD'S JIDDA OFFICE.

4 ETHIOPIA:
THE CROWN PRINCE WELCOMED AMBASSADOR CHAPIN AND ASKED FOR A BRIEFING ON THE LATEST SITUATION IN ETHIPIA. HE WAS PARTICULARLY INTERESTED IN THE DEGREE OF POPULAR SUPPORT ENJOYED BY THE MENIGSTU REGIME. AMBASSADOR CHAPIN GIGHLIGHTED RECENT DEVELOPMENTS IN ETHIOPIA, EMBHASIZING HOW HAILE SELASSIE'S APPEARANCE OF SEEMING INDIFFERENCE TO MANY OF THE COUNTRY'S PROBLEMS PAVED THE WAY FOR A COMMUNIST TAKEOVER. THE CURRENT REGIME SEEMED TO ENJOY SOME SUPPORT IN THE SOUTH WHERE LAND REFORMS HAD ATTRACTED THE PEASANTS, BUT IN THE CENTER AND THE NORTH THE MENIGSTU REGIME HAD LITTLE SUPPORT, ESPECIALLY AMONG THE MIDDLE-CLASS AND INTELLECTUALS.

FAHD SAID HIS INTEREST IN ETHIOPIA WAS NOT PURELY ACADEMIC; RATHER IS WAS BASED ON THE HORN OF AFRICA'S PROXIMITY TO THE ARABIAN PENINSULA AND THE REPERCUSSIONS OF THE ETHIOPIAN-SOMALI-ERITREAN-SUDANESE POLITICAL SCENE ON DEVELOPMENTS IN SAUDI ARABIA AND THE GULF AREA. FAHD REVIEWED THE RECENT HISTORY OF DEVELOPMENTS IN ETHIOPIA FROM A SAUDI PERSPECTIVE. HE SAID THAT THE EMPEROR HAD MADE MISTAKES OF COMMISSION AND OMISSION, BUT COULD HAVE BEEN PERSUADED BY THOSE WHO WERE HIS BENEFACTORS TO CORRECT THE SIUTATION, ESPECIALLY THE SEVERE CONDITIONS RESULTING FROM THE DEVASTING DROUGHTS.

6. THE CROWN PRINCE RELATED HOW PRIOR TO THE EMPEROR'S DOWNFALL, HE (FAHD) HAD DISCUSSED HAILE SELASSIE'S PROBLEMS WITH THEN PRESIDENT NIXON AND SECRETARY ROGERS. THEY HAD ASKED IF SAUDI ARABIA COULD BE HELPFUL FINANCIALLY, BUT SAUDI ARABIA COULD NOT APPEAR TO BE HELPFUL IN VIEW OF ETHIOPIA'S CAMPAIGN AGAINST THE ERITREANS. UNFORTUNATELY THE WEST AND THE U.S. ALSO DID NOTHING, LEAVING AN OPEN PATH FOR THE SOVIETS AND THEIR ALLIES TO MOVE IN WITH THEIR CUBAN SURROGATES. FAHD ALSO QUERIED AS TO THE RESULT OF PRESIDENT CARTER'S PROMISE TO BE HELPFUL IN SOLVING THE OGADEN SITUATION. FAHD RECALLED HOW IN 1978, AT PRESIDENT CARTER'S SUGGESTION, HE HAD PERSUADED SIAD BARRE TO ANNOUNCE PUBLICLY HIS ACCEPTANCE OF A UN PLEBISCITE FOR OGADEN'S PEOPLE. ALTHOUGH BARRE DID ANNOUNCE HIS WILLINGENSS TO ACCEPT THE RESULTS OF A UN REFERENDUM, THE U.S. SEEMS TO HAVE LOST INTEREST IN SOMALIA. FAHD FEARED THAT, THROUGH NEGLECT, THE U.S. MIGHT LOSE SOMALIA BY DEFAULT.

7. IRAN AND THE COMMUNIST THREAT:
CROWN PRINCE FAHD SAID DEVELOPMENTS IN IRAN, AS THOSE IN ETHIOPIA, COULD BE SEEN AS AN EXAMPLE OF U.S. SEEMING INDIFFERENCE OR IMPOTENCE. "INSTEAD OF PRESSRUING THE SHAH INTO BRINGING HIS THOUGHTS AND ACTIONS UP TO DATE SO AS TO PULL THE RUG FROM UNDER THE COMMUNIST AGITATORS YOU LET HIM GO". "KHOMEINI IN OUR POINION," CONTINUED FAHD, "IS A TOOL, ALTHOUGH HE MAY NOT KNOW IT OR ADMIT IT. THE COMMUNISTS ARE PURSUING THEIR DESIGNS METHODICALLY. FIRST THEY WANTED TO BRING FORTH THE STREET RESISTANCE, THEN THE INTELLECTUAL PATRIOTS, IN ORDER TO DEAL WITH THEM CONSECUTIVELY AND MORE EFFECTIVELY. LOOK AT WHAT HAS HAPPENED IN IRAN. WHY,THEY HAVE KILLED THE CREAM OF THEIR SOCIETY -- THE BEST BRAINS IN THE MILITARY, THE PROFESSIONS, AND THE CIVIL SERVICE HAVE ALL BEEN EXECUTED OR FORCED INTO EXILE. THESE ACTS OF SAVAGE SLAUGHTER HAVE NO CONNECTION TO ISLAM WHOSE FALG IS BEING ARTIFICALLY FLUTTERED IN IRAN."
BT
#7096

NNNN

VV ESA45IRAA894
PP RUQMHL

DE RUQMRA #7096/2 383103
ZNY SSSSS ZZH
P R 100524Z OCT 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC PRIORITY 7593
INFO RUQMBI/AMEMBASSY ABU DHABI 1786
RUTABA/AMEMBASSY ADDIS ABABA 709
RUEHAM/AMEMBASSY AMMAN 4053
RUQMBE/AMEMBASSY BEIRUT 7261
RUQMDH/AMEMBASSY DHAHRAN 3018
RUSBLK/AMEMBASSY KABUL 214
RUQMKM/AMEMBASSY KHARTOUM 1172
RUQMAM/AMEMBASSY MANAMA 1520
RUQMDI/AMEMBASSY MOGADISHU 468
RUQMYA/USLO RIYADH 4129
RUQMHR/AMEMBASSY TEHRAN 2781
RUEADWW/THE WHITE HOUSE
BT
S E C R E T SECTION 2 OF 3 JIDDA 7096

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THE CROWN PRINCE PREDICTED THAT "SHORTLY, PERHAPS WITHIN A FEW MONTHS, KHOMEINI WILL BE OUT AND IRAN WILL BECOME ANOTHER ETHIOPIA, RELED BY COMMUNISTS PLACED THERE BY MOSCOW!" THE CROWN PRINCE REGRETTED THAT THE UNITED STATES DID NOTHING TO COUNTER THE COMMUNIST THREATS IN THE REGION. FAHD FURTHER NOTED THAT IRAN WAS THREATENING BAHRAIN, KUWAIT AND THE OTHER ARAB COUNTRIES OF THE GULF. THERE HAD HOWEVER NOT BEEN A WORD OF CAUTION TO IRAN FROM PRESIDENT CARTER TO REASSURE NOT ONLY WEAK COUNTRIES LIKE BAHRAIN, BUT ALSO AMERICA'S OTHER FRIENDS IN THE AREA AND AROUND THE WORLD. "THREE QUARTERS OF THE RAB REGIMES ARE WITH YOU REALLY". SAID FAHD. "THEY ALL AWAIT EXPECT AND HOPE FOR THEIR POWERFUL, WISE AND MORALLY ADROIT FRIEND, THE U.S., TO SEND OUT THE MESSAGE LOUD AND CLEAR: 'STOP. ENOUGH IS ENOUGH! WE AND ALL DECENT PEOPLES IN THE WORLD CANNOT SIT IDLY BY AND WATCH THE LAW OF THE JUNGLE PREVAIL!'" ALREADY ETHIOPIA, AFGHANISTAN, IRAN AND THE PDRY WERE SUCCUMBING TO SOVIET PRESSURE". FAHD FEARED THA PAKISTAN MIGHT BE NEXT. "SAUDI ARABIA HAD SEEN THE COMMUNIST FIRE APPROACHING FOR A LONG TIME AND HAD ALERTED THE U.S. SAUDI ARABIA'S WARNINGS AND APPPEALS HOWEVER SEEM TO HAVE FALLEN ON DEAF EARS."

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8. CUBA AND THE U.S. RESPONSE TO SOVIET INCURSIONS:
IN RESPONSE TO THE CROWN PRINCE'S HOUR-OONG DISCOURSE,
AMBASSADOR WEST STRESSED THAT THE U.S. HAD IN FACT TAKEN
A STRONG STANCE TO COUNTER SOVIET THREATS. AS ON EXAMPLE,
THE AMBASSADOR NOTED THAT THE EMBASSY HAD DELIVRRED EARLIER
IN HE DAY A COPY OF PRESIDENT CARTER'S SPEECH ON SOVIET COM-
BAT TROOPS IN CUBA. THE PRESIDENT HAD WANTED US TO SHARE
AN ADVANCE COPY WITH PRINCE FAHD PRIOR TO ITS DELIVERY BUT WE
AHD BEEN UNABLE TO DO SO BECAUSE OF THE VROWN PRINCE' S BUSY
SCHEDULE. FAHD, IN RESPONSE, ACKNOWLEDGED THAT THE PRESIDENT'S
SPEECH ON CUBA WAS THE TYPE OF RESPONSE TO SOVIET ADVENTURISM
THAT SAUDI ARABIA APPRECIATED. THE AMBASSADOR CONTINUED THAT
THER WERE MANY WHO WERE ATTEMPTING TO SOW THE SEEDS OF DIS-
TRUST BETWEEN THE U.S. AND SAUDI ARABIA; THERE WERE THOSE WHO
INSINUATED THAT THE U.S. WAS NOT WILLING TO COME TO THE AID OF
ITS ALLIES AND FRIENDS. BUT IT WAS IMPORTANT TO REMEMBER THAT
WEN SAUDI ARABIA FELT THREATENED BY SOUTH YEMEN'S INVASION
OF NORTH YEMEN, THE U.S. RESPONDED TO EVERY SAUDI REQUEST,
OUR RESPONSE TO THE YEMEN SITUATION SHOULD BE SEEN AS PROOF
POSITIVE THA THE UNITED STATES DOES NOT DESERT ITS FRIENDS
IN TIME OF NEED. IT WAS ALSO A CLEAR NOTICE TO THE REST
OF THE WORLD AS TO THE U.S. COMMITMENT TO SAUDI ARABIA AND
ITS SECURITY AGAINST EXTERNAL THREATS. WITH RESPECT TO
U.S. RESPONSES TO DEVELOPMENTS IN IRAN AND ETHIOPIA,
AMBASSADOR WEST NOTED THAT IT WAS DIFFICULT FOR US TO
LEND SUPPORT TO REGIMES FACED WITH MAJOR DOMESTIC CONFLICTS
WIHOUT APPEARING TO INTERFERE UNDULY IN THOSE REGIME'S
INTERNAL AFFAIRS. THE AMBASSADOR REMINDED FAHD THAT THE
ARAB SEEMED PARTICULARLY SENSITIVE IN THIS REGARD.
SAUDI ARABIA HAD OFTEN BEEN HELPFUL IN INSURING THAT THE
U.S. COULD SUPPORT OUR FIRENDS WITHOUT THAT SUPPORT BEING
EMBARRASSING OR COUNTERPRODUCTIVE. THE U.S. APPRECIATED THAT
PAST SUPPORT AND HOPED THAT THE CROWN PRINCE WOULD CONTINUE
TO ASSIST US IN GIVING THE PROPER SORT OF LOW VISIBILITY
SUPPOR MANY OF OUR FRIENDS IN THE REGION REQUIRED.

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9. CONFIDENTIAL FOUL PAGE DAY [illegible] WAHD CALLED COUNSELOR
[illegible] AND THE FOLLOWING: "[illegible] WHAT AMBASSADOR
[illegible] ABOUT CARTER'S SPEECH? WELL, I DIDN'T WANT TO EM-
[illegible] ALL IN THE [illegible] OF YOUR [illegible] AMBASSADOR
[illegible] I WAS ABOUT TO SAY WHAT I AM TELLING YOU NOW,
[illegible] IF THAT SPEECH IS CARTER DOCTRINE NO. 1, WE NEED
[illegible] FOR OUR AREA. SURELY YOUR PRESIDENT AND PEOPLE KNOW
[illegible] A COUPLE OF THOUSAND SOVIET TROOPS NEAR FLORIDA
WILL NOT BE TOLERATED BY THE USG; SOVIET PRESENCE GRIPPING
[illegible] THROATS AROUND HERE, THREATENING TO CRIMP YOUR VITAL
[illegible] AND OURS, SHOULD BE AT LEAST AS DESERVING OF A
[illegible], UNEQUIVOCAL STAND. REMIND WSHINGTON, IN TIS CON-
[illegible], OF THE ARABIC SAYING "TO COUNT THE LASHES IS ONE
[illegible], BUT TO FEEL THEM IS SOMETHING ELSE!'" END COMMENT.

10. THE PALESTINIAN QUESTION AND MIDEAST PEACE:
FAHD REITERATED SAG'S CONTENTION THAT ANY SO-CALLED SOLUTION
TO THE ARAB-ISRAELI DISPUTE WHICH DOES NOT HAVE THE PARTI-
CIPATION AND AGREEMEN OF THE PALESTINIANS WILL NOT SUCCEED.
HE EMPHASIZED THA, "WE KNOW FROM THE ARABS, THROUGH SADAT, MORE
THAN THE ISRAELIS EVER DREAMED: RESPECTABILITY, ACCEPTANCE
WITHIN THE AREA AS A STATE. BUT TRUE TO THEIR SYLE, THE
ISRAELIS KEEP WANTING TO GRAB, GRAB, GRAB! FIRS THEY INSIST
ON CONTINUING, AND IN FAC INCREASING, THE BUILDING OF SETTLE-
MENST ON THE WEST BANK. NOW THEY WANT MORE ARAB LAND, OSTENSIBLY
THROUGH PURSHASE. IS THIS ISRAELI GREED CONDUCIVE TO SECURING
ARAB GOOD WILL? ARE THE ISRAELIS ONLY INTERESTED IN ACCOMMODA-
TION WITH SADAT AND TO HELL WITH THE REST OF THE ARABS? IS
THE U.S. GOVERNMENT CONDONING THIS? ARE YOU GOING TO DO NO
MORE HAN EXPRESS 'REGRETS' A WHAT BEGIN IS DOING? WE AASURE
YOU THAT GEGIN THE BULLY THAT HE IS, LISTENS ONLY O THE
VOICE THAT INDIACTES THE SPEAKER HAS DETERMINATION, GUMPTION,
AND THE COURAGE OF HIS CONVICTIONS." IN OTHER WORDS (OR SO
IT CAME OUT IN ISA SABBAGH'S INTERPRETATION), 'THE VOICE OF
A MAN WITH BALLS!'
BT
#7096

NNNNVV ESA441AAA738
PP RUQMHR
DE RUQMRA #7096/3 2831100
ZNY SSSSS ZZH
P R 190524Z OCT 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC PRIORITY 7994
INFO RUQMBI/AMEMBASSY ABU DHABI 1787
RUTABA/AMEMBASSY ADDIS ABABA 710
RUEHAM/AMEMBASSY AMMAN 4054
RUQMBE/AMEMBASSY BEIRUT 7262
RUEHEG/AMEMBASSY CAIRO 5628
RUQMDH/AMCONSUL DHAHRAN 3819
RUSBLK/AMEMBASSY KABUL 215
RUQMKM/AMEMBASSY KHARTOUM 1173
RUQMAM/AMEMBASSY MANAMA 1521
RUQMDI/AMEMBASSY MOGADISHU 469
RUQMYA/USLO RIYADH 4130
RUQMHR/AMEMBASSY TEHRAN 2782
RUEADWW/THE WHITE HOUSE
BT
S E C R E T SECTION 3 OF 3 JIDDA 7096

EXDIS

11. IN RESPONSE AMBASSADOR WEST REITERATED PRESIDNET CARTER'S DEEP COMMITMENT TO A COMPREHENSIVE AND JUST PEACE, AS WELL AS THE U.S. RECOGNITION THAT IT IS NECESSARY TO HAVE A SLOUTION TO THE PALESTINIAN PROBLEM AS A PREREQUISITE FOR MIDEAST PEACE. THE AMBASSADOR POINTED OUT THAT IN LIGHT OF RECENT MODERATION SHHOWN BY THE PLO, PUBLIC OPINION POLLS WERE BEGINNING TO SHOW THAT AMAJORITY OF THE PEOPLE OF THE U.S. WERE IN FAVOR OF A DIALOGUE WITH THE PLO. HE ADDED THAT THE VISITS TO THE REGION BY THE SOUTHERN CHRISTIAN LEADERSHIP GROUP AND REVEREND JESSE JACKSON WERE SURE TO HAVE A FURTHER IMPACT ON THE AMERICAN PEOPLE IN TERMS OF AAMILIARIZING THEM WITH THE PLIGHT OF THE PALESTINIANS. WHILE THE AMBASSADOR UNDERSTOOD THE IMPATIENCE SHOWN BY SAUDI ARABIA AND THE REST OF THE ARAB WORLD AT THE LACK OF PROGRESS ON THE AUTONOMY NEGOTIATIONS, WE WERE OBLIGAIED TO ALOW PRESIDENT SADAT AND PRIME MINISTER BEGIN A REASONABLE TIME TO SHOW PREOGRESS ON SUCH NEGOTIATIONS. THE U.S. WOULD BE PREPARED, IF AND WHEN IT APPEARED THAT THERE WAS AN ABSOLUTE STALEMENT, TO SEP IN AS A MORE ACTIVE FULL PARTNER IN THE PEACE PROGRESS AND TO DO OUR UTMOST TO BREAK ANY DEADLOCK EVEN IF IT MEANT TAKING POSITIONS ADVERSE TO BOTH SADAT AND BEGIN. AVMBASSADOR WEST ADDED THAT AMBASSADOR STRAUSS WAS PLANING TO RETURN TO THE AREA IN DECEMBER. IN THE MEANTIME, HE WAS LOOKING FORWARD TO HIS TALK WITH SAUD IN NEW YORK AND WULD BE ABLE TO GIVE AN UP-TO-DATE ACCOUNT ON PROGRESS IN THE AUTONOMY NEGOTIATIONS.

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12. CLOSING REMARKS:
AFTER ALMOST TWO HOURS OF CONVERSATION, THE CROWN PRINCE BROUGHT THE DISCUSSION TO A CLOSE. HE NOTED THAT "AS USUAL I HAVE SPOKEN FRANKLY, OPENING MY HEART O MY AMERICAN FRIENDS. I WOULD NOT HAVE DONE SO IF I HAD NOT STILL THE GIHGEST REGARD AND RESPECT FOR PRESIDENT CARTER. I APPRECIATE WHAT HE IS TRYING TO DO. HE NEEDS ENCOURAGEMENT AND REASSURANCE AND THIS HE HAS FROM ME AS A FRIEND WHO FEELS THAT THE TIES BETWEEN THE TWO COUNTRIES SHOULD NOT BE SUFFERED TO SSLACKEN. MY REMARKS ABOUT U.S. INACTION OF SLOW-NESS OF ACTION STEM FROM OUR UNSHAKEABLE CONVICTION THAT OUR SINCERE FRIEND, THE USA, IS CAPABLE OF ITS TRADITIONAL EFFECTIVE RESPONSE BEFITTING THE ESTEEMED LEADER OF THE FREE WORLD."

13. THE AMBASSADOR ASSURED PRINCE FAHD THAT HIS REMARKS WERE WELL TAKEN, THAT PRESIDENT CARTER IS HIMSELF A FRANK PERSON WHO BELIEVES IN LISTENING TO A WISE, THOUGH CRITICAL, FRIEND SOONER THAN BEING FAWNED OVER BY HYPROCRITES.

14. AMBASSADOR'S COMMENT:
THE CROWN PRINCE WAS IN A TALKATIVE MOOD AND DIDN, IN FACT, SEEM TO BE "OPENING HIS HEART" WITH AN UNUSUAL DEGREE OF FRANKNESS. HIS COMMENTS ABOUT THE NEED FOR U.S. ACTION WERE AS POINTED AD ANY THAT HE HAS MADE DURING OUR ASSOCIATION. IT IS PERHAPS OF SOME SIGNIFICANCE THAT HE AND MINISTER OF PETROLEUM YAMANI HAD JUST COMPLETED A A LENGHTY SESSION WITH OIL MINISTER SABAH OF KUWAIT. WE SUSPECT THAT THE SAUDI DECISION TO INCREASE OIL RODUCTION WAS THE MAJOR SUBJECT. SINCE SAUDI ARABIA HAS ACCOMMODATED USG ON THISQUESTION, FAHD HAD PROBABLY BEEN "CHARGED UP" BY SABAH TO GET SOME ADDITIONAL CONCESSIONS BFROM USG ON GULF SECURITY AND MIDEAST PEACE. THE FACT THAT ALMOST THE SAME SENTIMENT WAS EXPRESSED BY PRINCE ABDULLAH IN A MEETING THE NEXT DAY (JIDDA 6977) STRENGTHENS OUR CONCLUSION THAT THIS IS THE PRESENT PREVAILING SENTIMENT WITHIN THE SAG HIERARCHY.

WEST

BT
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NNNNVV ESBQ62BRA176
PP RUQMHR
DE RUEHC #4132/01 2930611
ZNY SSSSS ZZH
P 192148Z OCT 79
FM SECSTATE WASHDC
TO *INTSUM COLLECTIVE PRIORITY*
INFO RUEATRS/TREASURY DEPARTMENT WASHDC PRIORITY 3028
RUEKJCS/DOD/ISA WASHDC
BT
S E C R E T SECTION 01 OF 02 STATE 274132/01

E.O. 12065 GDS 10/19/85 (MONTVILLE, JOSEPH V.)

TAGS: EG, IS, PINR

SUBJECT: INTSUM 920 -OCTOBER 19, 1979

LONDON FOR GLASPIE
PARIS FOR NICHOLAS MURPHY
DOD/ISA FOR RANSOM
OTHER ADDRESSEES FOR CHIEFS OF MISSION

WARNING NOTICE SENSITIVE SOURCES AND METHODS INVOLVED
NOT RELEASABLE TO FOREIGN NATIONALS

(PARAGRAPHS 1-5 SECRET/NOFORN)

1. SAUDI-SOVIET RELATIONS: DESPITE OCCASIONAL REPORTS TO THE CONTRARY, WE HAVE SEEN NO PRESUASIVE EVIDENCE OF A SIGNIFICANT WARMING OF SOVIET-SAUDI RELATIONS. SPECULATION THAT THE SAUDIS LATELY HAVE—AS THE SOVIET PRESS PUTS IT — "TRANSCENDED MERE PROTOCOL" IN THEIR COMMUNICATIONS WITH THE SOVIETS SEEMS TO BE BASED LARGELY ON:

(A) THE EXCHANGE OF CONGRATULATORY CABLES BETWEEN SOVIET AND SAUDI LEADERS IN CONNECTION WITH SAUDI ARABIA'S NATIONAL DAY ON SEPTEMBER 23; AND

(B) THE FACT THAT THE SAUDI ARABIAN AMBASSADOR AND MILITARY ATTACHE ATTENDED A RECEPTION HOSTED BY THE SOVIET EMBASSY IN SANA ON SEPTEMBER 30.

2. THE USSR HAS ATTEMPTED TO IMPROVE RELATIONS WITH

SAUDI ARABIA SINCE THE 1973 WAR, PERCEIVING A LINK WITH RIYADH AS THE KEY TO SIMILAR TIES WITH ALL GULF STATES. (THE SOVIETS NOW HAVE DIPLOMATIC RELATIONS ONLY WITH KUWAIT AMONG THE CONSERVATIVE GULF STATES.) IT MAY ALSO BE RECALLED THAT THE USSR WAS PARTICULARLY ACTIVE IN COURTING THE SAUDIS AFTER THE DEATH OF FAISAL IN 1975, AND IN THE WAKE OF THE SADAT PEACE INITIATIVE IN 1977. MOSCOW HAS INTENSIFIED EFFORTS SINCE THE SIGNING OF THE CAMP DAVID ACCORDS.

3. IN REGARD TO THE EXCHANGE OF CONGRATULATORY TELEGRAMS BETWEEN BREZHNEV AND KHALID, IT IS NOTEWORTHY THAT:

(A) THIS WAS NOT THE FIRST TIME THE TWO LEADERS HAD EXCHANGED TELEGRAMS;

(B) WHILE THE SOVIETS WOULD LIKE TO EXPLOIT THE CURRENT SAUDI POSITION ON THE PEACE PROCESS TO IMPROVE RELATIONS WITH THE SAUDIS, THE SAUDI REGIME CANNOT, BECAUSE OF FOREIGN AND DOMESTIC CONSIDERATIONS, MAKE ANY STRONG MOVE IN THIS DIRECTION AT THIS TIME; AND

(C) SAUDI ARABIA ENCOURAGES SUCH RUMORS FROM TIME TO TIME TO PUT PRESSURE ON THE US TO CHANGE POSITION ON VARIOUS QUESTIONS AND TO VOICE SAUDI DISSATISFACTION OVER SPECIFIC AMERICAN MOVES .

4. AT THE SAME TIME, REPORTS FROM HIGH SAUDI OFFICIALS SUGGEST THAT THE SAUDIS ARE CONCERNED THAT THE US DOES NOT TAKE THE SOVIET DANGER SERIOUSLY ENOUGH.

5. THE INTENSITY OF SAUDI REMARKS ON THE SUBJECT MAKES CLEAR THAT THE SAUDIS ARE NOT IN FACT WARNING UP TO THE SOVIETS. INSTEAD, THE SAUDI LEADERSHIP HOPES TO USE SUCH MINIMAL GESTURES AS ATTENDING SOVIET RECEPTIONS AS SCARE TACTICS TO PROMPT THE US INTO TAKING SAUDI COOPERATION LESS FOR GRANTED.

6. (U) EGYPT-US-ISRAEL SUMMIT: IN AN OCTOBER 18 ARTICLE IN AL-AHRAM, KHALIL WAS QUOTED AS SAYING THAT A SUMMIT MEETING OF THE US, ISRAEL AND EGYPT ON THE

PALESTINIAN ISSUE TO "ADOPT DECISIONS THAT CANNOT BE TAKEN AT THE CURRENT MINISTERIAL LEVEL WAS "A HIGH PROBABILITY."

7. (U) ISRAELI PRISONER RELEASE: THE EGYPTIAN PRESS CARRIED REPORTS OCTOBER 18 THAT ISRAEL MAY HAVE RELEASED AN UNSPECIFIED NUMBER OF ARAB PRISONERS. EMBASSY CAIRO COMMENTED THAT THE PRESS FAILED TO PICK UP A JERUSALEM RADIO REPORT THAT THE PRISONERS WERE FROM AL-ARISH AND NORTHERN SINAI AND HAD NOT ACTIVELY ENGAGED IN TERRORIST ACTIVITIES.

8. (C) US ROLE IN SINAI: EMBASSY TEL AVIV REPORTS THAT WEIZMAN IN AN OCTOBER 17 MEETING WITH SINAI SUPPORT MISSION AND EMBASSY PERSONNEL AGREED WITH THE PROPOSALS FOR VERIFICATION ACTIVITIES IN THE SINAI, EXCEPT FOR THE USTSO PRESENCE, WHICH HE SAID COULD ONLY BE ONE OF LIMITED LOGISTICAL SUPPORT TO THE US.

9. (U) SAUDI ARABIA-US ARMS SALES TO ISRAEL: AP REPORTS THAT SAUDI ARABIAN OIL MINISTER YAMANI CALLED FOR A BAN ON ALL US ARMS SALED TO ISRAEL OCTOBER 18. YAMANI ADDED, HOWEVER, THAT SAUDI ARABIA ITSELF NEEDS US ARMS AS A PROTECTION AGAINST COUNTRIES WHICH SUPPORTED THE GOALS OF THE SOVIET UNION.

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#4132

NNNNVV ESB063BRA181
PP RUQMHR
DE RUEHC #4132/02 2930613
ZNY SSSSS ZZH
P 192148Z OCT 79
FM SECSTATE WASHDC
TO INTSUM COLLECTIVE PRIORITY
INFO RUEATRS/ TREASURY DEPARTMENT WASHDC PRIORITY 3029
RUEKJCS/DOD/ISA WASHDC
BT
S E C R E T FINAL SECTION OF 02 STATE 274132/02

10. (U) KHALIL VISITS EUROPE: RADIO CAIRO REPORTED KHALIL LEFT OCTOBER 18 ON A 10-DAY TOUR THAT WILL INCLUDE AUSTRIA AND BRITAIN.

11. (U) IRAQ RAISES PRICE OF OIL: ACCORDING TO AP, OIL INDUSTRY SOURCES SAID OCTOBER 18 THAT IRAQ HAS RAISED THE PRICE OF ITS OIL ABOUT 10 PERCENT. IRAQ HOWEVER, DID NOT RAISE ITS PRICES ABOVE THE DOLLARS 23.50 PER BARREL CEILING SET BY OPEC IN JUNE. IRAQ RAISED THE PRICE OF ITS BEST-QUALITY OIL ONLY 18 CENTS TO DOLLARS 22.18 PER BARREL, BUT INCREASED THE PRICES OF THE LOWER QUALITY CRUDES THAT DOMINATE IRAQI PRODUCTION BY DOLLARS TO BETWEEN DOLLARS 20.65 AND DOLLARS 21.96 PER BARREL.

12. (U) GULF STATES-IRAN: RADIO KUWAIT REPORTS THAT THE FOREIGN MINISTERS OF THE SIX ARAB GULF STATES PUBLISHED A STATEMENT OCTOBER 18 IN WHICH THEY AGREED AT THEIR CONFERENCE TO DEVELOP RELATIONS WITH IRAN TO THE MAXIMUM.

13. (U) OPEC WARNING: OPEC CHAIRMAN MANA SAID OTAYBA ON A VISIT TO JAPAN OCTOBER 18 WARNED OF THE RISING DANGER OF A SUPERPOWER CONFRONTATION OVER OIL. REUTER REPORTED THAT OTAYBA TOLD PRIME MINISTER FUKUDA THAT THE DROP IN SOVIET OIL OUTPUT MIGHT FORCE MOSCOW TO ADVANCE ITS INTERESTS IN THE MIDDLE EAST AND UPSET THE POWER BALANCE. OTAYBA ALSO LINKED JAPAN'S RECOGNITION OF THE PLO WITH GUARANTEES FOR THE SUPPLY OF OIL.

14. (LOU) SYRIA-US: EMBASSY DAMASCUS NOTED AN ILLUSTRATION OF SYRIA'S BIFURCATED ATTITUDES TOWARD THE US WHEN ASSAD TOLD A US BUSINESSMAN LAST WEEK THAT HE HOPED FOR CONTINUED COOPERATION BETWEEN THE US AND SYRIA " IN ALL FIELDS, NOT JUST PETROLEUM." THE EMBASSY COMMENTS THAT THIS IS AN IMPORTANT INDICATION THAT THE SYRIAN GOVERNMENT AT THE HIGHEST LEVELS HOPES TO SALVAGE BILATERAL RELATIONS WITH THE US DESPITE DIFFERENCES IN MIDDLE EAST POLICIES.

15. (C) RIF' AT AL-ASSAD: SYRIAN MEDIA ARE GIVING SUBTLE INDICATIONS THAT THE PRESIDENT'S BROTHER, RIF'AT AL-ASSAD, IS STILL IN FAVOR IN SYRIA, ACCORDING TO EMBASSY DAMASCUS. ON OCTOBER 13 THE DAMASCUS PRESS PROMINENTLY DISPLAYED A PHOTOGRAPH OF RIF'AT CHAIRING A MEETING OF AN EDUCATION FEDERATION. THE ARTICLE REFERRED TO HIM AS A "STAFF COLONEL."

16. (S) SYRIA-INTERNAL: EMBASSY DAMASCUS REPORTS THAT TERRORIST INCIDENTS CONTINUE TO OCCUR ALTHOUGH THE VENUE HAS SHIFTED LARGELY TO SYRIA'S NORTHERN CITIES. ALEPPO AND HAMA HAVE BEEN THE SITES OF A NUMBER OF ASSASSINATIONS OVER THE PAST TWO WEEKS, WITH SEVERAL OF THE INCIDENTS APPARENTLY STEMMING FROM LONG-STANDING BLOOD FEUDS. THE EMBASSY COMMENTS THAT IN SPITE OF THE FAIRLY HEAVY NUMBER OF INCIDENTS OVER THE PAST TWO WEEK, THE DAMASCUS RUMOR MILL HAS NOT BEEN PARTICULARLY ACTIVE. THE EMBASSY ATTRIBUTES THIS DEVELOPMENT TO:

(A) THE FACT THAT INCIDENTS OUTSIDE OF DAMASCUS, UNLESS OF MAJOR MAGNITUDE, TEND TO ATTRACT LESS ATTENTION; AND

(B) DAMASCENES APPEAR TO BE BECOMING SOMEWHAT INURED TO THE ALMOST DAILY ACTS OF VIOLENCE.

17. (LOU) NORTH LEBANON: EMBASSY BEIRUT REPORTS THAT A LEBANESE ARMY SOURCE TOLD OUR DEFENSE ATTACHE THAT TENSION HAD EASED, IN NORTH LEBANON OCTOBER 18 AND THAT HE EXPECTED THE HOSTAGES TO BE RELEASED SOON.

18. (C) SOUTH LEBANON:. USUN REPORTS THAT WEIZMAN IN HIS CONVERSATION WITH SILLASVUO, PLEDGED FULL ISRAELI SUPPORT FOR MAINTENANCE OF THE CEASEFIRE. WEIZMAN ALSO SAID THAT HE WOULD GIVE ORDERS FOR HADDAD TO STOP THE HARRASSMENT OF VILLAGERS LIVING IN THE UNIFIL AREA. VANCE
BT
#4132

NNNNVV ESA818RAA176
PP RUQMHR
DE RUQMRA #7445/1 2970728
ZNY CCCCC ZZH
P R 240645Z OCT 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC PRIORITY 7742
INFO RUQMYA/USLO RIYADH 4196
RUQMDH/AMCONSUL DHAHRAN 3063
RUQMHR/AMEMBASSY TEHRAN 2791
RUQMBI/AMEMBASSY ABU DHABI 1806
RUQMOD/AMEMBASSY DOHA 788
RUQMMT/AMEMBASSY MUSCAT 719
RUQMAM/AMEMBASSY MANAMA 1542
RUQMKW/AMEMBASSY KUWAIT 4355
RUEHAD/USINT BAGHDAD 3310
RUDTC/AMEMBASSY LONDON 4293
RUFNPS/AMEMBASSY PARIS 2119
RUFHOL/AMEMBASSY BONN 671
RUEHKO/AMEMBASSY TOKYO 428
RUEHME/AMEMBASSY MEXICO 048
RUESUZ/AMEMBASSY BRAZILIA 050
RUEHOT/AMEMBASSY OTTAWA 127
RUEHEG/AMEMBASSY CAIRO 3857
RUQMNS/AMEMBASSY SANA 3175
BT
C O N F I D E N T I A L SECTION 1 OF 2 JIDDA 7445

ECON
CHARGE
POL
RF
CHRON

DEPT PLEASE PASS DEPT OF TREASURY, MRS. POUNDS

E.O. 12065: GDS 10/23/85 (WALKER, ROBERT L.) OR-E
TAGS: ECON, EFIN
SUBJ: SAUDI ARABIA' THIRD DEVELOPMENT PLAN (1980/81-1984/85)

REF: JIDDA 6801

1. (C-ENTIRE TEXT).

2. THE SOCIAL AND ECONOMIC HAVOC THAT EMERGED THROUGHOUT THE GULF AS A CONSEQUENCE OF FRANTIC SPENDING INCREASES BEGINNING IN 1974 LED THE SAUDI GOVERNMENT BY 1977 TO CURTAIL SHARPLY THE GROWTH IN ITS SPENDING, SO AS BOTH TO REDUCE INFLATION AND TO SET THE SOCIETY ON A MORE SUSTAINABLE DEVELOPMENT PATH. THE GOVERNMENT'S EFFORTS WERE

:UCCESSFUL ON BOTH COUNTS. DESPITE THIS SUCCESS, ERUPTION THIS PAST YEAR OF POLITICAL REACTION IN IRAN AGAINST REPID SOCIAL CHANGE HAS INCREASED AWARENESS WITHIN SAUDI LEADERSHIP CIRCLES OF THE SOCIALLY DESTABLILIZING EFFECTS OF ECONOMIC DEVELOPMENT.

3. AGAINST THIS BACKGROUND, THE THIRD FIVE YEAR DEVELOPMENT PLAN HAS BEEN FORMULATED TO CONTINUE THE POLICY OF LIMITED SPENDING INCREASES AND TO CONCENTRATE SPENDING ON SOCIALLY DESIRABLE ACTIVITIES. PRELIMINARY INDICATIONS ARE THAT OVERALL SPENDING FOR THE FIVE YEAR PERIOD IS TARGETED AT SOMEWHAT ABOVE 800 BILLION RIYALS, OR DOLS 238 BILLION AT THE CURRENT EXCHANGE RATE. EVEN ASSUMING THAT THISD AMOUNT IS EXPRESSED IN CONSTANT (1979) RIYALS, IT IMPLIES NO REAL GROWTH FOR THE NEXT FIVE YEARS IN GOVERNMENT OUTLAYS FROM THIS YEAR'S ANNUAL BUDGET OF 160 BILLION RIYALS, OR DOLS 47 BILLION.

4. SAUDI DEPUTY MINISTER OF PLANNING DR. FAISEL BASHIR RECENTLY CHARACTERIZED THE THIRD PLAN'S RELATIVE EMPHASIS NOT IN TERMS OF CONTINUITY, BUT OF SHIFTS OF EMPHASIS. HE SAID THAT THE THIRD PLAN WOULD SHIFT AWAY FROM PHYSICAL INFRASTRUCTURE DEVELOPMENT, WHICH HAS IN SOME CASES BEEN OVERBUILT, TOWARD PRODUCTIVE ENTERPRIZE, PARTICULARLY PETROCHEMICALS, OIL REFINING AND AGRICULTURE. THE NEW PLAN WILL ALSO PUT LESS EMPHASIS ON DEVELOPING THE KINGDOM'S THREE MAJOR CITIES AND WILL MAKE MORE EFFORT TO EXTEND DEVELOPMENT TO OUTLYING AREAS. SUCH MEASURES ARE DESIGNED TO ADDRESS REGIONAL IMBALANCES IN WEALTH AND RATES OF DEVELOPMENT AND THEREBY TO RETARD THE INFLUX OF POPULATION INTO THE MAJOR CITIES. BASHIR ALSO SAID THAT HE FORESAW NO APPRECIABLE INCREASE IN THE NUMBER OF FOREIGN WORKERS IN SAUDI ARABIA DURING THE THIRD PLAN, BUT , RATHER, ANTICIPATED INTENSIFIED EFFORTS TOWARD SOCIAL INFRASTRUCTURE DEVELOPMENT, PARTICULARLY IN THE AREA OF VOCATIONAL TRAINING.

5. NO MATTER HOW WELL EXECUTED THESE EFFORTS DURING THE THIRD PLAN PERIOD, UNDERLYING TENSIONS CAN BE EXPECTED TO REMAIN. ON THE ONE HAND, A CONSERVATIVE FISCAL POLICY INEVITABLY SQUEEZES TRADERS' MARGINS OF PROFIT, FOSTERING RESENTMENT, PARTICULARLY AMONG SMALLER TRADERS, OF THE

RICHER AND MORE PRIVILEDGED. ON THE OTHER HAND, IT BECOMES INCREASINGLY OBVIOUS WITH THE PASSAGE OF YEARS THAT THE ECONOMIC TRANSFORMATIONS EMBARKED UPON IN 1974 HAVE BROUGHT ABOUT CUMULATIVE AND LONG-LASTING EFFECTS ON SAUDIS' TRADITIONAL VALUES, AS WELL AS ON THEIR INCOMES, THESE COMMONLY SHARED VALUES HAVE BEEN A MAJOR SOURCE OF LEGETIMACH FOR THE MONARCHY.

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FM AMEMBASSY JIDDA

TO RUEHC/SECSTATE WASHDC PRIORITY 7743

INFO RUQMYA/USLO RIYADH 4197

RUQMDH/AMCONSUL DHAHRAN 3064

RUQMHR/AMEMBASSY TEHRAN 2792

RUQMBI/AMEMBASSY ABU DHABI 1807

RUQMOD/AMEMBASSY DOHA 789

RUQMMT/AMEMBASSY MUSCAT 720

RUQMAM/AMEMBASSY MANAMA 1543

RUQMKW/AMEMBASSY KUWAIT 4356

RUEHAD/USINT BAGHDAD 3311

RUDTC/AMEMBASSY LONDON 4294

RUFNPS/AMEMBASSY PARIS 2120

RUFHOL/AMEMBASSY BONN 672

RUEHKO/AMEMBASSY TOKYO 429

RUEHME/AMEMBASSY MEXICO 049

RUESUZ/AMEMBASSY BRAZILIA 051

RUEHOT/AMEMBASSY OTTAWA 128

RUEHEG/AMEMBASSY CAIRO 3858

RUQMNS/AMEMBASSY SANA 3176

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C O N F I D E N T I A L SECTION 2 OF 2 JIDDA 7445

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6. OIL REVENUE AVAILABILITY HAS TAKEN ON A DOMESTIC POLITICAL SIGNIFICANCE THAT WILL CONTINUE THROUGH THE THIRD PLAN. IN 1978/79, THE REVENUE SHORTFALL SERVED AS MUCH AS A PRETEXT FOR FISCAL AUSTERITY THAT WAS MOTIVATED BY SOCIAL CONSIDERATIONS AS A REASON FOR AUSTERITY IN AND OF ITSELF. WITH PRESENT AND PROSPECTIVE REVENUE INCREASES BEYOND DESIRED EXPENDITURE LEVELS, (OWING MAINLY TO OIL PRICE, BUT ALSO TO OIL PRODUCTION INCREASES), THE SAUDI GOVERNMENT FEELS THAT

IT MUST EXERT CONSIDERABLE EFFORTS TO MAINTAIN SPENDING CONTROLS. CONTINUED SURPLUSES MERELY TEMPT THE REGIME TO OVERSPEND, AS IN THE 1975-76 PERIOD, AND INVITE FURTHER CRITICISM OF SAG OIL PRODUCTION LEVELS FROM SAUDI NATIONALISTS AND OTHER OPEC MEMBERS ALIKE. CONCERN WITH THESE DOMESTIC CONSIDERATIONS MARKS A CLEAR SHIFT OF EMPHASIS FROM FIVE YEARS AGO, WHEN THE SECOND FIVE YEAR PLAN WAS FORMULATED TO SPEND AS MUCH OF THE PROSPECTIVE REVENUES AS POSSIBLE, SO AS TO BLUNT CRITICISM FROM THE NON-OPEC WORLD OF THE END-1973 OIL PRICE QUINTUPLING.

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